



2006 Annual Report

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2006 Commissioners

James Orvis	President
Marianne Burkhart	Vice-President
Bruce Faires	Secretary
Mary Lou Block	Commissioner
Frederick Gouge	Commissioner

Port Officers

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

Port of Edmonds 2006 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, 2006

PORT OF EDMONDS
MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Port of Edmonds' (The Port's) financial performance provides an overview of the Port's financial activities for the fiscal year ended December 31, 2006. 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. In 2006, the Port purchased six buildings from one of its tenants, and now rents portions of the buildings to approximately fifty tenants.

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 managed 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 2006.

FINANCIAL HIGHLIGHTS

In 2006, the Port's overall operating revenues increased, going up \$1,232,026, or 26% over 2005. This increase is primarily due to the acquisition of the six Harbor Square buildings in March 2006.

The Port's overall operating costs also increased in 2006, going up \$1,280,087, or 27% over 2005 operating expense levels. This increase is primarily caused by the operation and management of the six Harbor Square buildings.

The Port's overall net operating loss was \$745,810 in 2006.

The Port's decrease in net assets was \$384,560, or a 1% decrease from the Port's 2005 total net assets.

The Port's assets exceeded its liabilities by \$27,698,149 (net assets) as of December 31, 2006.

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 that segment information be reported if all of the following exist: 1). the activity must be identifiable; 2). the activity must have revenue-supported debt outstanding; 3). the activity must be externally required to maintain separate accounts. In 2006, the Port of Edmonds issued special revenue bonds for the purchase of the Harbor Square Property. Therefore, in Note 10 to the financial statements, the Port has disclosed the condensed information for the two funds: Marina and Leases and Harbor Square Property. The summary financial statements presented in the Management's Discussion and Analysis and the financial statements presented on pages 8-11 show the information for the Port as a whole. 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.

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 2006, the Port's Net Assets decreased by \$384,560 or 1%, which shows that the Port of Edmonds performed better in 2005 than it did in 2006. Cash flows show if the Port is spending more money than it received. In 2006, the Port of Edmonds spent \$2,075,860 more than it received. This increase in spending was expected as the Port purchased the Harbor Square Property in 2006. 2006 was an unusual year for the Port, as it purchased Harbor Square and borrowed money to finance the purchase.

FINANCIAL ANALYSIS – STATEMENT OF NET ASSETS

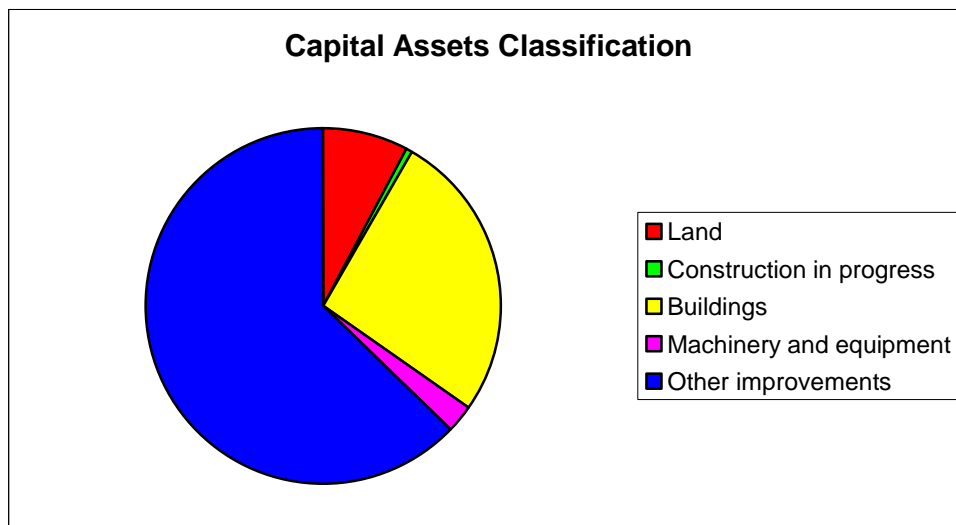
Summary of Assets, Liabilities, and Net Assets				
	2006	2005	Increase (Decrease)	% Change
Current Assets	\$ 5,510,182	\$ 7,462,644	\$(1,952,462)	-26.16%
Restricted Assets	800,900	800,900	-	0.00%
Capital Assets	41,511,752	30,599,312	10,912,440	35.66%
Other Noncurrent Assets	591,542	698,290	(106,748)	-15.29%
Total Assets	48,414,376	39,561,146	8,853,230	22.38%
Current Liabilities	2,014,291	2,102,646	(88,355)	-4.20%
Noncurrent Liabilities	18,701,936	9,375,791	9,326,145	99.47%
Total Liabilities	20,716,227	11,478,437	9,237,790	80.48%
Invested in Capital Assets, Net of Related Debt	22,227,122	20,568,521	1,658,601	8.06%
Unrestricted	5,471,027	7,514,188	(2,043,161)	-27.19%
Total Net Assets	\$27,698,149	\$28,082,709	\$ (384,560)	-1.37%

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2006, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port's Net Assets decreased by \$384,560, or 1% in 2006, for a total of \$27,698,149. Of this amount \$22,227,122 reflects the Port's investment in capital assets, net of debt.

The Port has booked the acquisition of all assets at historical costs on its Statement of Net Assets. The Port 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.

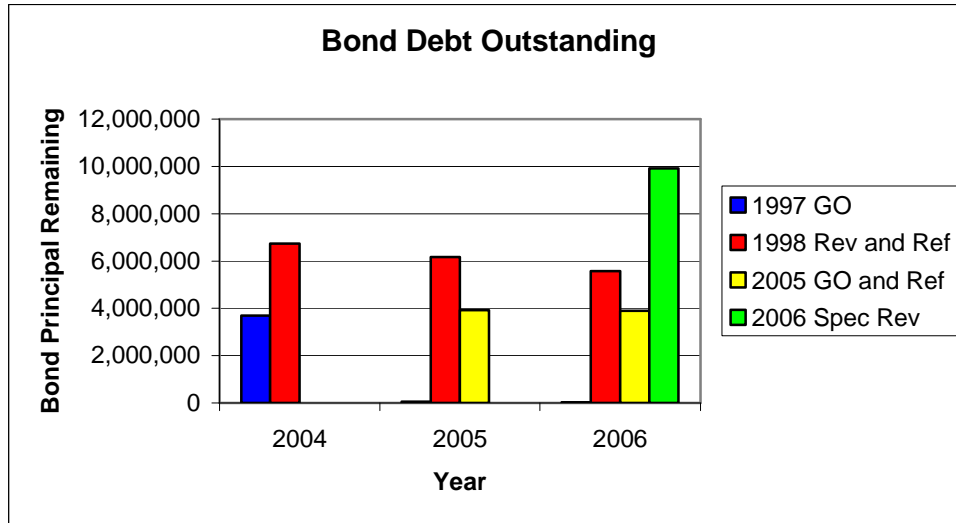
The Port maintained capital assets of \$41,511,752 as of December 31, 2006. The book value of the capital assets increased by \$10,912,440 in 2006 as a result of investments in capital assets, offset by depreciation charged against revenue in the year. When the Port invests more than depreciation in new capital assets in a year, the book value of its asset base increases.

The Port’s capital assets are classified into the following categories: land, construction in progress, buildings, machinery and equipment, and other improvements. Other improvements include assets such as docks, breakwaters, the dry stack facility, roads, and landscaping. See Note 4 in the Notes to the Financial Statements for more information.



The Port’s current liabilities as of December 31, 2006 are debts that the Port will repay in 2007. The total current liabilities decreased by \$88,355 in 2006. Current liabilities include payments for expenses already incurred, accrued interest on the Port’s bonds, and the principal amount of the bond payments due in 2007.

The Port’s long term liabilities increased in 2006, due to the purchase of the Harbor Square Property, which was funded by issuing \$10,000,000 of special revenue bonds. General Obligation bonds outstanding at December 31, 2006 was \$3,920,000, a decrease of \$55,000. Revenue and Refunding bonds outstanding at December 31, 2006 were \$15,484,972, an increase of \$9,309,972 from the prior year. See Note 8 in the Notes to the Financial Statements for more information.



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

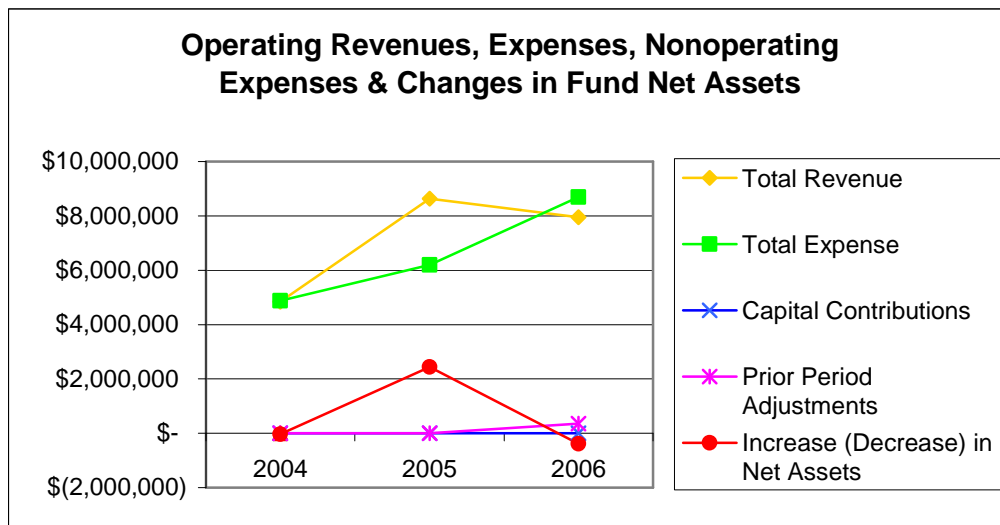
Summary of Revenues, Expenses, and Changes in Fund Net Assets				
	2006	2005	Increase (Decrease)	% Change
Operating Revenues	\$ 5,971,227	\$ 4,739,201	\$ 1,232,026	26.00%
Nonoperating Revenues	1,975,454	3,895,778	(1,920,324)	-49.29%
Total Revenues	7,946,681	8,634,979	(688,298)	-7.97%
Operating Expenses	6,091,725	4,811,638	1,280,087	26.60%
Nonoperating Expenses	2,600,766	1,389,015	1,211,751	87.24%
Total Expenses	8,692,491	6,200,653	2,491,838	40.19%
Capital Contributions	5,000	-	5,000	N/A
Prior Period Adjustments	356,250	-	356,250	N/A
Increase/(Decrease) in Net Assets	\$ (384,560)	\$ 2,434,326	\$(2,818,886)	-115.80%

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 decreased by \$688,298 from 2005. Both 2005 and 2006 were unusual years for the Port. In 2005, the Port received a settlement of \$3,100,000, insurance reimbursements of \$413,669, and spent \$801,115 on environmental remediation. In April 2006, the Port of Edmonds began operating the Harbor Square Property, which increased revenues by approximately \$1,200,000. In addition, the Port received insurance reimbursements of \$1,406,720 in 2006. Operating revenues increased by 26% over 2005. Nonoperating revenues decreased by \$688,298 from 2005.

Operating expenses increased by \$1,280,087 over 2005, primarily due to the operation of the Harbor Square Property and paying interest on the special revenue bond the Port issued to purchase the property.

Nonoperating results included an increase in investment income of \$69,687, due to higher interest rates available compared to rates received on maturing investments. Interest expense increased by \$516,193 as the Port issued a \$10,000,000 special revenue bond to purchase the Harbor Square Property and is making monthly payments on the bond.

As discussed in Note 9C, the Port of Edmonds bought out Harbor Square’s lease agreement and six of the buildings at Harbor Square for \$13,500,000. The purchase price exceeded the fair market value of the buildings, and the excess of \$1,555,862 was recorded as settlement of lawsuit.



Summary of Revenues, Expenses, and Changes in Net Assets			
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Total Revenue	\$ 4,838,724	\$ 8,634,979	\$ 7,946,681
Total Expense	4,873,137	6,200,653	8,692,491
Capital Contributions	-	-	5,000
Prior Period Adjustments	-	-	356,250
Increase (Decrease) in Net Assets	\$ (34,413)	\$ 2,434,326	\$ (384,560)

All of the functions of the Port are considered in the numbers shown on the previous pages, 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.

PROGRAM IMPACTS

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

1. The Port took ownership of Harbor Square buildings 1 through 7 on March 31, 2006. The Port operates the property, which is managed by a property management company.
2. The Harbor Square buildings need some upgrades and maintenance including reroofing, repainting, and replacing the HVAC systems. These projects will be completed over the next several years.
3. The Port of Edmonds owns and operates a workyard, where boaters and their vendors may work on the boats. In 2006, the State of Washington issued a new boatyard permit, which requires boatyards to meet very strict waste water emission benchmarks. With the Port’s current technology, it is unable to meet all of these benchmarks. The Port, in cooperation with other boatyards, is appealing these benchmarks. If these appeals fail, the Port may have to upgrade the technology to meet the benchmarks or close the workyard.

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.

PORT OF EDMONDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

ASSETS

CURRENT ASSETS:

Cash and cash equivalents (Note 1)	\$ 4,687,931
Restricted Assets:	
Cash and cash equivalents (Note 1)	453,402
Taxes receivable (Notes 1 and 3)	9,216
Accounts receivable (net of allowance for uncollectibles) (Note 1)	185,587
Inventory (Note 1)	39,973
Prepays	134,073
Total Current Assets	<u>5,510,182</u>

NONCURRENT ASSETS:

Restricted Assets:	
Investments (Notes 1 and 2)	<u>800,900</u>
Capital Assets (Note 4):	
Property, plant and equipment	54,532,257
Construction in progress	189,486
Less: Accumulated depreciation	<u>(13,209,991)</u>
Total Net Capital Assets	<u>41,511,752</u>

Other Noncurrent Assets:

Lease acquisition costs, net of accumulated amortization (Note 1)	253,848
Deferred interest	337,694
Total Other Noncurrent Assets	<u>591,542</u>

TOTAL ASSETS \$ 48,414,376

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 339,130
Accrued expenses (Note 1)	305,289
Accrued interest payable	140,054
Customer deposits	406,498
Current portion of long-term obligations (Note 8)	823,320
Total Current Liabilities	2,014,291

NONCURRENT LIABILITIES:

General obligation bonds, net of current portion (Note 8)	3,802,696
Revenue bonds, net of current portion (Note 8)	14,658,614
Employee leave benefits (Note 1)	65,626
Environmental remediation liability	175,000
Total Noncurrent Liabilities	18,701,936

TOTAL LIABILITIES	20,716,227
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NET ASSETS:

Invested in capital assets, net of related debt	22,227,122
Unrestricted	5,471,027

TOTAL NET ASSETS	\$ 27,698,149
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TOTAL LIABILITIES AND NET ASSETS	\$ 48,414,376
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See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006

OPERATING REVENUES:	
Marina operations	\$ 4,266,476
Property lease/rental operations	1,704,751
Total Operating Revenues	<u>5,971,227</u>
OPERATING EXPENSES:	
General operations	2,338,536
Maintenance	413,582
General and administrative	770,235
Depreciation and amortization (Note 4)	2,569,368
Total Operating Expenses	<u>6,091,721</u>
Operating Loss	<u>(120,494)</u>
NONOPERATING REVENUES (EXPENSES):	
Investment income	265,886
Taxes levied for general purposes (Note 3)	298,486
Loss on disposition of fixed assets	(7,014)
Interest expense (Note 8)	(1,037,863)
Other nonoperating revenues (expenses)	4,331
Total Nonoperating Revenues (Expenses)	<u>(476,174)</u>
Loss before other revenues, expenses, gains, losses, and transfers	(596,668)
Capital Contributions	5,000
Settlement of Lawsuit (Notes 9 and 11)	(1,555,862)
Reimbursement of Attorney Fees from Insurance Companies (Note 11)	<u>1,406,720</u>
Decrease in net assets	<u>(740,810)</u>
Net assets - beginning of period	28,082,709
Prior period adjustments (Note 11)	356,250
Net assets - end of period	<u><u>\$ 27,698,149</u></u>

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers	\$ 5,826,396
Payments to suppliers	(2,134,618)
Payments to employees	(1,478,031)
Net cash provided by operating activities	2,213,747

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Proceeds from property taxes (Note 3)	295,328
Proceeds from insurance (Note 11)	1,406,720
Customer deposits	130,086
Miscellaneous revenue, net	4,362
Net cash provided by noncapital financing activities	1,836,496

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from capital debt (Note 8)	10,000,000
Capital contributions	5,000
Purchases and construction of capital assets (Note 4)	(13,075,230)
Settlement for purchase of capital assets (Notes 9 and 11)	(1,555,862)
Principal paid on capital debt (Note 8)	(745,027)
Interest paid on capital debt (Note 8)	(937,136)
Environmental remediation (Note 9)	(83,703)
Other receipts/payments	(31)
Net cash used by capital and related financing activities	(6,391,989)

CASH FLOWS FROM INVESTING ACTIVITIES:

Maturities of certificates of deposit (Note 2)	800,900
Purchases of certificates of deposit (Note 2)	(800,900)
Interest and dividends	265,886
Net cash provided by investing activities	265,886
Net decrease in cash and cash equivalents	(2,075,860)
Balances - beginning of the year	7,217,193
Balances - end of the year (Note 1)	5,141,333

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:

Operating loss	(120,494)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization expense (Note 4)	2,569,368
Change in assets and liabilities:	
Receivables, net	(118,260)
Inventories	4,980
Prepaid expenses	(6,961)
Accounts and other payables	(178,253)
Accrued expenses	63,367
Net cash provided by operating activities	\$ 2,213,747

See accompanying notes to the financial statements.

PORT OF EDMONDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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 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.

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, 2006, the treasurer was holding \$5,141,333 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.

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, 2006.

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:

Restricted Current Assets, Cash and Cash Equivalents – Debt Service Account	\$ 453,402
Restricted Non-Current Assets, Investments – Bond Reserve Account	800,900
Total Restricted Assets	<u><u>\$1,254,302</u></u>

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

7. Lease Acquisition Costs

Lease acquisition costs represent the costs of acquiring a lease from an existing tenant. The cost of acquisition is amortized over the remaining life of the lease.

In 1996, the Port bought out the Boat Loft lease. The Boat Loft lease acquisition costs are being amortized over 15 years, ending in 2011. Accumulated amortization amounted to \$698,471 at December 31, 2006.

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. Employee Leave Benefits/Compensated Absences

Employee leave benefits are absences for which employees will be paid, such as vacation and holiday 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 loan payments, leasehold, sales, business, and payroll taxes, employee withholding, wages payable, and abandoned property.

11. Long-Term Debt - See Note 8.

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 short-term investments are stated at current value. Other investments are shown on the statement of net assets at current value.

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.

Certificate of deposit	Matures June 7, 2007	<u>\$800,900</u>
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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.

<u>Property Tax Calendar</u>	
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 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 2006 was approximately \$0.0932 per \$1,000 on an assessed valuation of \$3,217,437,833 for a total regular tax levy of \$300,000. In 2005, 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.

When an asset is sold, retired, or otherwise disposed of, the original cost of the property 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

B. Capital assets activity for the year ended December 31, 2006, was as follows:

	Beginning			Ending
	Balance 1/1/2006	Increases	Decreases	Balance 12/31/2006
Capital assets, not being depreciated:				
Land	\$ 3,973,675	\$ 350,000	\$ -	\$ 4,323,675
Construction in progress	2,492,515	15,416,563	17,719,592	189,486
Total capital assets, not being depreciated	6,466,190	15,766,563	17,719,592	4,513,161
Capital assets, being depreciated:				
Buildings and structures	1,822,133	12,709,750	-	14,531,883
Machinery and equipment	1,280,917	89,509	105,018	1,265,408
Other improvements	31,829,860	2,581,431	-	34,411,291
Total capital assets being depreciated	34,932,910	15,380,690	105,018	50,208,582
Less accumulated depreciation for:				
Buildings and structures	1,051,617	411,690	-	1,463,307
Machinery and equipment	1,015,923	56,421	100,344	972,000
Other improvements	8,732,248	2,042,436	-	10,774,684
Total accumulated depreciation	10,799,788	\$ 2,510,547	\$ 100,344	13,209,991
Total capital assets, being depreciated, net	\$ 24,133,122			\$ 36,998,591

In 2006, the Port of Edmonds made improvements to its North Breakwater and Bulkhead and its Mid-Marina Breakwater that extended the life of the assets. The improvements were capitalized, and the original asset lives were adjusted to reflect the engineer's estimate of the total life of the asset.

C. Construction Commitments

The Port has active construction projects as of December 31, 2006. The projects and the Port's commitments with contractors are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
City Portion of Joint Project	\$ 2,217	\$ -
Dry Stack Expansion	11,926	-
M/N Dock Gangway Replacement	3,371	-
Maintenance Building	6,914	-
North Boardwalk	22,019	-
Northeast Parking Lot	98,928	-
Public Plaza	44,111	-
	<u>\$ 189,486</u>	<u>\$ -</u>

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*.

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

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by either February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

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

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. Retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,181 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

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

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

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

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

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

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

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

****Plan 3 defined benefit portion only.

*****Variable from 5.0% minimum to 15.0% maximum based on rate selected by 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:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2006	\$8,145	\$22,109	\$971
2005	\$5,114	\$13,701	\$218
2004	\$3,713	\$ 8,823	\$123

NOTE 7 – RISK MANAGEMENT

The Port of Edmonds is a member of the Washington Governmental Entity Pool (WGEP). RCW 48.62 authorizes the governing body of any one or more governmental entities 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 RCW 39.34, 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, flood control districts, fire protection districts, mosquito control districts, weed districts, conservation districts, library districts, regional mental health support networks, cemetery districts, park & recreation districts, air pollution districts, public development authorities, public facility districts, metropolitan municipal corporations, and other political subdivisions, governmental subdivisions, municipal corporations, and quasi-municipal corporations.

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

Members make an annual contribution to fund the Pool. The Pool acquires insurance from unrelated underwriters that are subject to a “per occurrence” \$500,000 deductible on liability loss, \$100,000 deductible on property loss, and \$5,000 deductible on boiler and machinery loss. The member is responsible for the first \$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 sixty 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

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.

The general obligation bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	2006 Installment
Infrastructure improvement to marina including marina reconstruction, bulkhead/promenade improvements, and a new dry stack storage facility	6/1/07	5.10%	\$ 3,800,000	\$ 25,000
Refund 1997 G.O. Bonds	6/1/07-6/1/17	3.00-4.10%	\$ 3,925,000	\$ 30,000

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

Year Ending December 31	1997 G.O. Bonds		2005 G.O. & Refunding Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 25,000	\$ 638	\$ 35,000	\$ 154,314
2008			65,000	152,733
2009			65,000	150,620
2010			70,000	148,339
2011			65,000	145,936
2012-2016			2,830,000	496,993
2017			765,000	15,683
Total	\$ 25,000	\$ 638	\$ 3,895,000	\$ 1,264,618

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, 2006, the Port's assessed value and limitation of unvoted general obligation debt are as follows:

Total Taxable Property Value	\$ 3,217,437,833
General Purpose Indebtedness Without a Vote	8,043,595
Indebtedness Incurred	4,622,261
Margin of Indebtedness Available Without a Vote	<u>\$ 3,421,334</u>

The revenue bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	2006 Installment
Refund of 1992 revenue bonds and capital projects including marina reconstruction, bulkhead/promenade project, a new dry stack storage facility	7/1/07-7/1/17	4.30% - 4.80%	\$ 8,590,000	\$ 600,000
Acquisition of Harbor Square buildings	1/1/07-4/1/16	7.38%	\$ 10,000,000	\$ 90,028

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

Year Ending December 31	1998 Rev. and Ref. Bonds		2006 Special Rev. Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 625,000	\$ 254,090	\$ 149,140	\$ 736,428
2008	650,000	227,215	158,578	726,989
2009	675,000	198,940	172,971	712,597
2010	700,000	168,903	186,367	699,201
2011	730,000	137,403	200,800	684,768
2012-2016	1,880,000	301,288	9,042,116	2,774,538
2017	315,000	15,120	-	-
Total	\$ 5,575,000	\$ 1,302,958	\$ 9,909,972	\$ 6,334,519

The Port's revenue bonds require the Port to maintain a 1.35 coverage requirement. The Port's debt service coverage ratio was 1.89 for December 31, 2006.

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, 2006, the Port had \$1,254,302 available in sinking funds and reserves as required by bond indentures.

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. \$25,000 of the bonds remain outstanding as of December 31, 2006, maturing in June 2007.

The advance refunding was undertaken to reduce total debt service payments over the next eleven years by \$275,620, and resulted in an economic gain of \$237,219.

Debt service on these bonds is met by cash and investments held by the refunding trustee. As of December 31, 2006, the trustee was holding cash and investments of \$3,650,130, which is expected to fund the debt service fully. These refunded bonds constitute a contingent liability of the Port but are excluded from the financial statements.

C. Changes in Long-Term Liabilities

During the year ended December 31, 2006, the following changes occurred in long-term liabilities:

	Beginning Balance <u>1/1/2006</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>12/31/2006</u>	Due Within <u>One Year</u>
Bonds Payable:					
G.O. and Refunding Bonds	\$ 3,975,000	\$ -	\$ 55,000	\$ 3,920,000	\$ 60,000
Revenue & Refunding Bonds	6,175,000	10,000,000	690,028	15,484,972	774,140
Less Deferred Amounts:					
For issuance costs	132,080	-	10,767	121,313	
Add Deferred Amounts:					
For bond premiums	12,871	-	1,080	11,791	
Total bonds payable	10,030,791	10,000,000	735,341	19,295,450	834,140
Compensated absences	62,207	113,962	110,543	65,626	
Environmental remediation liability	-	175,000	-	175,000	
Total Long-Term Liabilities	\$10,092,998	\$10,288,962	\$ 845,884	\$19,536,076	\$ 834,140

NOTE 9 – 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.

As discussed in Note 8, the Port is contingently liable for repayment of refunded debt.

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.

From 2003 to 2006, the Port of Edmonds was 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's environmental engineering firm, Landau Associates, prepared a report for the Port of Edmonds in November 2003 that provided estimates of the cost of remediation activities at the Port of Edmonds' Harbor Square complex due to past industrial activities at the site. The estimated costs presented in the report are for all remediation activities anticipated at the site, which are described as Phase I through Phase III remediation in the report. Phase I and Phase II remediation efforts were essentially completed in 2005 and 2006.

Phase III remediation remains to be completed. The majority of the contamination to be addressed in Phase III remediation is located under existing buildings; some areas of residual contamination (expected to be relatively small) are located outside building footprints, but underneath paved surfaces. Phase III activities were not undertaken due to the inaccessibility of the contaminated areas, although the Port has committed to remediation at such time that the structures at the Harbor Square complex are removed for future development.

The estimated cost of Phase III remediation was a range of \$150,000 to \$900,000, reflecting the uncertainty of the extent of contamination under existing structures that could not be readily accessed for assessment. The current estimated remediation cost (and associated potential financial liability) to address Phase III contamination is expected to range between approximately \$175,000 and \$1,050,000.

Landau Associates estimates the liability to the Port of Edmonds associated with the future cleanup of known areas of contamination on Port property to be \$175,000 to \$1,050,000 (in 2008 dollars). The middle point of this estimated range is approximately \$600,000.

In accordance with current generally accepted accounting principles, the Port of Edmonds reduced its environmental liability to \$175,000 in 2006.

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 asserted that the property it leased from the Port is contaminated with hazardous substances and sought clean up, remediation, and restoration of the property and recovery of damages and losses allegedly incurred as a result of the contamination.

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. This purchase was finalized in March 2006.

NOTE 10 – OTHER DISCLOSURES

A. Prior Period Adjustments

In 2005, the Port of Edmonds accrued an environmental liability of \$732,000 based on environmental engineering estimates. As discussed in Note 9B, Phases I and II were completed in March 2006. The Port overaccrued the environmental liability by \$6,250. This overaccrual was corrected as a prior-period adjustment in 2006.

In the process of settling the lawsuit referred to in Note 9 and buying out Harbor Square's lease agreement and six of the buildings at Harbor Square, the Port received title information to the Harbor Square Property, showing that it was purchased in 1978 at a cost of \$350,000. This purchase was not recorded in the Port's fixed asset register, so it was added to the fixed asset register and fixed assets in 2006, and is shown as a prior-period adjustment in 2006.

B. Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements.

C. Special Items

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

In 2006, the Port of Edmonds requested and received reimbursement for attorney fees of \$1,406,720 related to the Harbor Square Associates lawsuit against the Port of Edmonds.

As discussed in Note 9C, the Port of Edmonds bought out Harbor Square's lease agreement and six of the buildings at Harbor Square for \$13,500,000. The purchase price exceeded the fair market value of the buildings, and the excess of \$1,555,862 was recorded as settlement of lawsuit.

SUPPLEMENTARY INFORMATION

PORT OF EDMONDS
 DETAIL OF REVENUES AND OTHER SOURCES
 For the Year Ended December 31, 2006

MCAG No. 1759

Schedule 04

BARS Revenue Account No.	Description	Actual Revenues
621.00	Marina user charges	\$ 2,569,787
622.00	Marina user charges	92,991
625.00	Marina real property rentals – facilities	105,793
626.00	Marina real property rentals – facilities	1,334,092
627.00	Marina personal property rentals – w/ port operators	145,487
629.00	Other	18,326
620.00	Total Marina Revenues	4,266,476
661.00	Property lease/rental - user charges	68,315
664.00	Real property rentals – land	240,283
665.00	Real property rentals – facilities	1,376,120
669.00	Other	20,033
660.00	Total Property Lease/Rental Revenues	1,704,751
699.10	Interest income	265,886
699.20	Ad valorem taxes	298,486
699.40	Gains and losses	(7,014)
699.50	Special items	1,406,720
699.90	Other	4,362
699.00	Total Nonoperating Revenues	1,968,440
600.00	Total Revenues	\$ 7,939,667

PORT OF EDMONDS
 DETAIL OF EXPENSES AND OTHER USES
 For the Year Ended December 31, 2006

MCAG No. 1759

Schedule 05

<u>BARS Expense Account No.</u>	<u>Description</u>	<u>Actual Expenses</u>
721.00	Marina operations	\$ 1,969,292
723.00	Marina maintenance	198,469
725.00	Marina allocated general and administrative	637,714
727.00	Marina depreciation	2,136,521
720.00	Total Marina Expenses	4,941,996
761.00	Property lease/rental operations	369,248
763.00	Property lease/rental maintenance	127,530
765.00	Property lease/rental allocated general and administrative	254,811
767.00	Property lease/rental depreciation	398,140
760.00	Total Property Lease/Rental Expenses	1,149,729
799.90	Other expense	1,555,889
799.91	Interest expense	1,037,863
790.00	Total Nonoperating Expenses	2,593,752
700.00	Total Expenses	\$ 8,685,477

PORT OF EDMONDS
 SCHEDULE OF LONG-TERM DEBT
 For the Year Ended December 31, 2006

G.O. Debt
 Revenue Debt

MCAG No. 1759

Schedule 09
 Page 1 of 2

				(1)	(2)	(3)	(4)
I.D. NO.	PURPOSE	DATE OF ORIGINAL ISSUE	DATE OF MATURITY	BEGINNING OUTSTANDING DEBT 1/1/06	AMOUNT ISSUED IN CURRENT YEAR	AMOUNT REDEEMED IN CURRENT YEAR	ENDING OUTSTANDING DEBT 12/31/06 (1) + (2) - (3)
251.11	Reconstruction	6/1/97	6/1/17	\$ 50,000	\$ -	\$ 25,000	\$ 25,000
251.15	Refund 1997 Bonds	5/1/05	6/1/17	3,925,000	-	30,000	3,895,000
	Total G.O. Debt			\$ 3,975,000	\$ -	\$ 55,000	\$ 3,920,000

PORT OF EDMONDS
 SCHEDULE OF LONG-TERM DEBT
 For the Year Ended December 31, 2006

___ G.O. Debt
X Revenue 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 1/1/06	AMOUNT ISSUED IN CURRENT YEAR	AMOUNT REDEEMED IN CURRENT YEAR	ENDING OUTSTANDING DEBT 12/31/06 (1) + (2) - (3)
252.11, 252.15	Improvements Refunding	1/30/98	7/1/17	\$ 6,175,000	-	\$ 600,000	\$ 5,575,000
252.11	Acquisition of Harbor Square buildings	3/31/06	4/1/16	-	10,000,000	90,028	9,909,972
	Total Revenue Debt			\$ 6,175,000	\$ 10,000,000	\$ 690,028	\$ 15,484,972

PORT OF EDMONDS
SCHEDULE OF LIMITATION OF INDEBTEDNESS
AS OF DECEMBER 31, 2006

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%)	24,130,784
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Less: Indebtedness Incurred (Section I - IV)	4,630,045
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MARGIN OF INDEBTEDNESS AVAILABLE	\$ 19,500,739
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