



## 2007 Annual Report

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### 2007 Commissioners

Marianne Burkhart	President
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James Orvis	Secretary
Mary Lou Block	Commissioner
Bruce Faires	Commissioner

### Port Officers

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

# Port of Edmonds 2007 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, 2007**

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, 2007. 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. The facility consists of the marina with approximately 665 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 marina operations, the Port owns and manages 8 buildings, and rents portions of those buildings to approximately 50 tenants. Major tenants include a hotel, an athletic club, and 2 restaurants.

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.

FINANCIAL HIGHLIGHTS

In 2007, the Port's overall operating revenues increased by \$583,228, or 10% over 2006. The increase is due to several factors including an increase in moorage and dry storage rates, an increase in boating activity such as guest moorage and fuel sales, and the ownership and management of the Harbor Square Property for all of 2007, as opposed to only 9 months in 2006.

The Port's overall operating costs decreased in 2007 by \$319,777, or 5% below 2006 operating expense levels. In 2006, the Port of Edmonds reviewed the depreciation rate and expected life of its breakwater assets. The asset lives were revised to reflect the current estimate of their actual lives. Depreciation was increased in 2006, causing an increase in 2006 expenses.

The Port's overall net operating income was \$782,511 in 2007.

The Port's increase in net assets was \$414,633, or 1.5% over the Port's 2006 total net assets.

The Port's assets exceeded its liabilities by \$28,112,782 (net assets) as of December 31, 2007.

## USING THE ANNUAL REPORT

Government accounting falls under the control of the Government Accounting Standards Board (GASB). The Port uses the “one proprietary fund” model in compliance with the rules of GASB Statement No. 34. Since the Port is comprised of a single enterprise fund, no fund level financial statements are shown.

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, public amenities, and economic development.

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 Fund 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 2007, the Port’s Net Assets increased by \$414,633 or 1.5%, which shows that the Port of Edmonds performed better in 2007 than it did in 2006. Cash flows show if the Port is spending more money than it received. In 2007, the Port of Edmonds received \$185,495 more than it spent. Overall, the Port is in a better financial position than it was in 2006.

**FINANCIAL ANALYSIS – STATEMENT OF NET ASSETS**

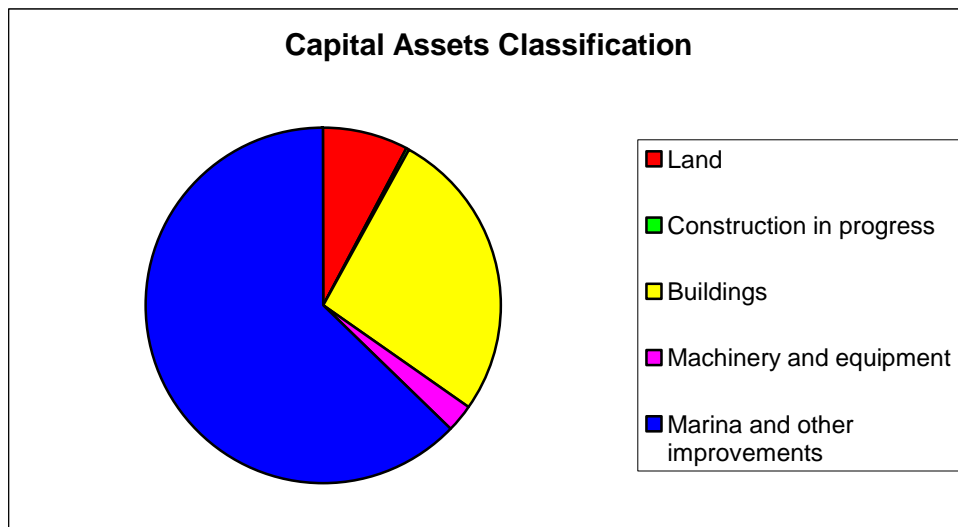
Summary of Assets, Liabilities, and Net Assets				
	2007	2006	Increase (Decrease)	% Change
Current Assets	\$ 5,846,791	\$ 5,510,182	\$ 336,609	6.11%
Restricted Assets	800,900	800,900	-	0.00%
Capital Assets	40,760,516	41,511,752	(751,236)	-1.81%
Other Noncurrent Assets	485,002	591,542	(106,540)	-18.01%
<b>Total Assets</b>	<b>47,893,209</b>	<b>48,414,376</b>	<b>(521,167)</b>	<b>-1.08%</b>
Current Liabilities	1,926,349	2,014,291	(87,942)	-4.37%
Noncurrent Liabilities	17,854,078	18,701,936	(847,858)	-4.53%
<b>Total Liabilities</b>	<b>19,780,427</b>	<b>20,716,227</b>	<b>(935,800)</b>	<b>-4.52%</b>
Invested in Capital Assets, Net of Related Debt	22,301,269	22,227,122	74,147	0.33%
Unrestricted	5,811,513	5,471,027	340,486	6.22%
<b>Total Net Assets</b>	<b>28,112,782</b>	<b>27,698,149</b>	<b>414,633</b>	<b>1.50%</b>
<b>Total Liabilities and Net Assets</b>	<b>\$47,893,209</b>	<b>\$48,414,376</b>	<b>\$ (521,167)</b>	<b>-1.08%</b>

This discussion of the Port’s financial statements includes an analysis of major changes in the assets and liabilities for 2007, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port’s Net Assets increased by \$414,633, or 1.5% in 2007, for a total of \$28,112,782. Of this amount \$22,301,269 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.

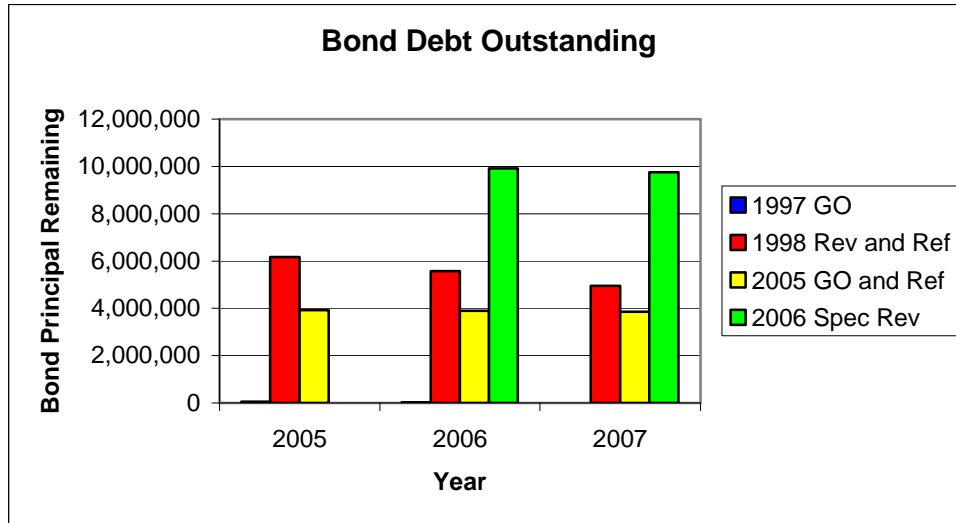
The Port maintained capital assets of \$40,760,516 as of December 31, 2007. The book value of the assets decreased by \$751,236 in 2007 as a result of investments in capital assets, offset by depreciation charged against revenue in the year. When the Port invests more than depreciation in new capital 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, marina and other improvements, and machinery and equipment. Marina and 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, 2007 are debts that the Port will repay in 2008. The total current liabilities decreased by \$87,942 in 2007. Current liabilities include payments for expenses already incurred, accrued interest on the Port's bonds, customer deposits, and the principal amount of the bond payments due in 2008.

The Port's long term liabilities decreased by \$847,858 in 2007, as the Port makes principal payments on its bonds. General Obligation bonds outstanding at December 31, 2007 were \$3,860,000, a decrease of \$60,000 from 2006. Revenue and Refunding bonds outstanding at December 31, 2007 were \$14,710,844, a decrease of \$774,128 from the prior year. See Note 8 in the Notes to the Financial Statements for more information.



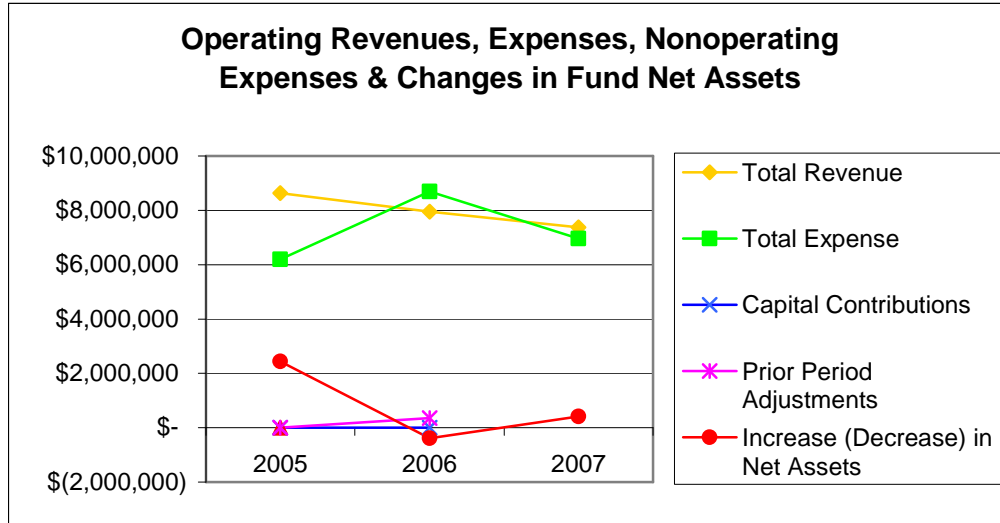
**FINANCIAL ANALYSIS – REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**

Summary of Revenues, Expenses, and Changes in Fund Net Assets				
	2007	2006	Increase (Decrease)	% Change
Operating Revenues	\$ 6,554,455	\$ 5,971,227	\$ 583,228	9.77%
Nonoperating Revenues	819,756	1,975,423	(1,155,667)	-58.50%
<b>Total Revenues</b>	<b>7,374,211</b>	<b>7,946,650</b>	<b>(572,439)</b>	<b>-7.20%</b>
Operating Expenses	5,771,944	6,091,721	(319,777)	-5.25%
Nonoperating Expenses	1,187,634	2,600,739	(1,413,105)	-54.33%
<b>Total Expenses</b>	<b>6,959,578</b>	<b>8,692,460</b>	<b>(1,732,882)</b>	<b>-19.94%</b>
Capital Contributions	-	5,000	(5,000)	N/A
Prior Period Adjustments	-	356,250	(356,250)	N/A
<b>Increase/(Decrease) in Net Assets</b>	<b>\$ 414,633</b>	<b>\$ (384,560)</b>	<b>\$ 799,193</b>	<b>307.82%</b>

While the Statement of Net Assets shows the change in net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes. The Port's total revenues decreased by \$572,439 from 2006. 2006 was an unusual year for the Port. In 2006, the Port received insurance reimbursements of \$1,406,720. Operating revenues increased by 9.77% over 2006. Nonoperating revenues decreased by \$1,155,667 in 2007.

Expenses decreased by \$1,732,882 in 2007. In 2006, the Port purchased the Harbor Square Property, and expensed the difference of \$1,555,862 between the fair market value of the buildings and the price paid to buyout the lease agreement and to settle the legal issues.

Nonoperating results included an increase in property taxes of \$59,575. Interest expense increased by \$145,886 as the Port made a full year of interest payments on the 2006 Special Revenue Bond, which was used to purchase the Harbor Square Property. In 2006, the Port only made 9 months of interest payments on the same bond.



Summary of Revenues, Expenses, and Changes in Net Assets			
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Total Revenue	\$ 8,634,979	\$ 7,946,650	\$ 7,374,211
Total Expense	6,200,653	8,692,460	6,959,578
Capital Contributions	-	5,000	
Prior Period Adjustments	-	356,250	
Increase (Decrease) in Net Assets	<u>\$ 2,434,326</u>	<u>\$ (384,560)</u>	<u>\$ 414,633</u>

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 expenses. 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 seven 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 five Harbor Square buildings 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 and replacing the HVAC systems. These projects will be completed over the next several years.
3. The Port of Edmonds signed two land lease agreements that become effective when the lessees take control of the property. These agreements will increase the Port's property lease revenue over the next 30 years.
4. 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 consistently meet the benchmarks. The Port is investigating different technologies and cleaning methodologies.
5. In 2007, the Port of Edmonds partnered with the City of Edmonds and private owners to discuss the possible development opportunities of the properties known as the Skipper's property, the Antique Mall property, and Harbor Square. Although the redevelopment of the Harbor Square Property is unlikely to occur in the next fifteen years, redevelopment of the Skipper's and Antique Mall properties may bring more business to the waterfront.
6. In 2005, the Port of Edmonds contracted with Triton Marine to replace the north seawall/timberwall and repair the mid-marina breakwater. Triton subcontracted the mid-marina breakwater repair portion of the contract to Blackwater Marine. The work was to be completed by November 30, 2005. Blackwater was unable to complete the work by that date, and the Port agreed to allow Triton and its subcontractor Blackwater to continue the work the following year.

Prior to recommencement of the contracted work, the Port of Edmonds found that the paint had failed on the portion of work that was complete, apparently due to improper preparation of the breakwater prior to application of the paint and/or improper paint application. The following year, completed work had to be redone.

In June 2007, Blackwater filed suit against Triton and the Port of Edmonds. Blackwater's claim against the Port of Edmonds is against the public works contract retainage. Triton has a claim against the Port asserting that if Blackwater's claims against Triton have merit, then the Port or its Engineers are ultimately responsible for any damages Blackwater receives from Triton. The Port has denied responsibility for any such damages.

The Port of Edmonds properly hired and relied on its engineering firm, BERGER/ABAM to specify the process, procedure, and materials required for the project, and, therefore, the Port believes that it will not be liable for damages to Blackwater or to Triton, if any occurred to either. Please see Note 9B for further information.

7. The Port of Edmonds purchased the Harbor Square land in 1978 from the Union Oil Company. 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 estimated costs presented in the plan 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 is expected to range between approximately \$175,000 and \$1,050,000 (in 2008 dollars). Please see Note 10 for further information.

### 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, 2007

ASSETS

CURRENT ASSETS

Cash and cash equivalents (Note 1)	\$ 4,886,542
Restricted Assets	
Cash and cash equivalents (Note 1)	440,286
Taxes receivable (Notes 1 and 3)	9,691
Accounts receivable (net of allowance for uncollectibles) (Note 1)	265,537
Inventory (Note 1)	66,582
Prepays	178,153
Total Current Assets	5,846,791

NONCURRENT ASSETS

Restricted Assets	
Investments (Notes 1 and 2)	800,900
Capital Assets Not Being Depreciated (Note 4)	
Land	4,323,675
Construction in progress	208,709
Capital Assets Being Depreciated (Note 4)	
Buildings	14,755,770
Marina and other improvements	34,755,585
Machinery and equipment	1,385,465
Less: Accumulated depreciation	(14,668,688)
Total Net Capital Assets	40,760,516

Other Noncurrent Assets

Lease acquisition costs, net of accumulated amortization (Note 1)	190,464
Deferred interest	294,538
Total Other Noncurrent Assets	485,002

TOTAL ASSETS

\$ 47,893,209

See accompanying notes to the financial statements.

PORT OF EDMONDS  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2007

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 388,226
Accrued expenses (Note 1)	147,105
Accrued interest payable	126,424
Customer deposits	402,783
Current portion of long-term obligations (Note 8)	861,811
Total Current Liabilities	1,926,349

NONCURRENT LIABILITIES

General obligation bonds, net of current portion (Note 8)	3,742,898
Revenue bonds, net of current portion (Note 8)	13,854,538
Employee leave benefits (Note 1)	81,642
Environmental remediation liability (Note 10)	175,000
Total Noncurrent Liabilities	17,854,078

TOTAL LIABILITIES	19,780,427
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NET ASSETS

Invested in capital assets, net of related debt	22,301,269
Unrestricted	5,811,513
TOTAL NET ASSETS	28,112,782

TOTAL LIABILITIES AND NET ASSETS	\$ 47,893,209
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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, 2007

OPERATING REVENUES (Note 1)	
Marina operations	\$ 4,495,519
Property lease/rental operations	2,058,936
Total Operating Revenues	<u>6,554,455</u>
OPERATING EXPENSES (Note 1)	
General operations	2,603,019
Maintenance	593,358
General and administrative	914,909
Depreciation and amortization (Note 4)	1,660,658
Total Operating Expenses	<u>5,771,944</u>
Operating Income	<u>782,511</u>
NONOPERATING REVENUES (EXPENSES) (Note 1)	
Disaster grant - public assistance	3,750
Investment income	288,890
Taxes levied for general purposes (Note 3)	358,061
Gain on disposition of fixed assets	19,055
Interest expense (Note 8)	(1,183,749)
Election expense	(3,885)
Other nonoperating revenues (expenses)	-
Total Nonoperating Revenues (Expenses)	<u>(517,878)</u>
Income before other revenues, expenses, gains, losses, and transfers	264,633
Reimbursement of Attorney Fees from Insurance Companies (Note 11)	<u>150,000</u>
Increase in net assets	<u>414,633</u>
Net assets - beginning of period	27,698,149
Net assets - end of period	<u><u>\$ 28,112,782</u></u>

See accompanying notes to the financial statements.

PORT OF EDMONDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2007

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 6,474,505
Payments to suppliers	(2,555,296)
Payments to employees	(1,719,751)
Net cash provided by operating activities	<u>2,199,458</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Proceeds from disaster grant - public assistance	3,750
Proceeds from property taxes (Note 3)	357,586
Proceeds from insurance (Note 11)	150,000
Customer deposits	(3,715)
Election payments	(3,885)
Net cash provided by noncapital financing activities	<u>503,736</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases and construction of capital assets (Note 4)	(826,981)
Principal paid on capital debt (Note 8)	(834,128)
Interest paid on capital debt (Note 8)	(1,145,480)
Net cash used by capital and related financing activities	<u>(2,806,589)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Maturities of certificates of deposit (Note 2)	800,900
Purchases of certificates of deposit (Note 2)	(800,900)
Interest and dividends	288,890
Net cash provided by investing activities	<u>288,890</u>
Net decrease in cash and cash equivalents	185,495
Balances - beginning of the year	5,141,333
Balances - end of the year (Note 1)	<u><u>5,326,828</u></u>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>	
Operating income	782,511
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation and amortization expense (Note 4)	1,660,658
Changes in assets and liabilities	
Receivables, net	(79,950)
Inventories	(26,609)
Prepaid expenses	(44,080)
Accounts and other payables	49,096
Accrued expenses	(142,168)
Net cash provided by operating activities	<u><u>\$ 2,199,458</u></u>

See accompanying notes to the financial statements.

PORT OF EDMONDS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

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 GAAP Port Districts* in the State of Washington.

Funds are accounted for on a cost of services or an economic measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the Port's 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 its 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 revenues and expenses and nonoperating ones. Operating revenues and expenses generally result from providing services to the Port's tenants and customers. Revenues and expenses not related to providing services to tenants and 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, 2007, the treasurer was holding \$5,326,828 in short-term residual investments of surplus cash. This amount is classified on the Statement of Net Assets as cash and cash equivalents and restricted assets, 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 accounts receivable is \$1,000 at December 31, 2007.

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.

The restricted assets are composed of the following:

Restricted Current Assets, Cash and Cash Equivalents – Debt Service Account	\$ 440,286
Restricted Non-Current Assets, Investments – Bond Reserve Account	800,900
Total Restricted Assets	<u>\$1,241,186</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 amortized over 15 years, ending in 2011. Accumulated amortization amounted to \$761,855 at December 31, 2007.

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. The Port's investment is listed below:

Certificate of deposit	Matures June 7, 2008	<u>\$800,900</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.

<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 2007 was approximately \$0.089 per \$1,000 on an assessed valuation of \$3,945,486,315 for a total regular tax levy of \$350,000. In 2006, the regular tax levy was \$300,000.

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, 2007, was as follows:

	Beginning			Ending
	Balance 1/1/2007	Increases	Decreases	Balance 12/31/2007
Capital assets, not being depreciated				
Land	\$ 4,323,675	\$ -	\$ -	\$ 4,323,675
Construction in progress	189,486	422,814	403,591	208,709
<b>Total capital assets, not being depreciated</b>	<b>4,513,161</b>	<b>422,814</b>	<b>403,591</b>	<b>4,532,384</b>
Capital assets, being depreciated				
Buildings	14,531,883	223,887	-	14,755,770
Marina and other improvements	34,411,291	344,294	-	34,755,585
Machinery and equipment	1,265,408	259,183	139,126	1,385,465
<b>Total capital assets being depreciated</b>	<b>50,208,582</b>	<b>827,364</b>	<b>139,126</b>	<b>50,896,820</b>
Less accumulated depreciation for				
Buildings	1,463,307	533,718	-	1,997,025
Marina and other improvements	10,774,684	985,980	-	11,760,664
Machinery and equipment	972,000	77,576	138,577	910,999
<b>Total accumulated depreciation</b>	<b>13,209,991</b>	<b>\$ 1,597,274</b>	<b>\$ 138,577</b>	<b>14,668,688</b>
<b>Total capital assets, being depreciated, net</b>	<b>\$ 36,998,591</b>			<b>\$ 36,228,132</b>

C. Construction Commitments

The Port has active construction projects as of December 31, 2007. The projects and the Port's commitments with contractors are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Dry Stack Expansion	\$ 11,926	\$ -
M/N Dock Gangway Replacement	12,436	-
Maintenance Building	6,914	-
Mid-Marina Landscaping	217	-
North Boardwalk	22,019	-
Northeast Parking Lot	98,928	-
North Lot Landscaping	176	-
Restroom Project	56,093	-
	<u>\$ 208,709</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 members are vested after the completion of 5 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 5 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. Plan 1 retirements from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of-living (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by 3 percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

Plan 2 members are vested after the completion of 5 years of eligible service. Plan 2 members may retire at the age of 65 with 5 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. The benefit is also actuarially reduced to reflect the choice of a survivor option. 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 10 years of service; or after 5 years of service, if 12 months of that service are earned after age 44; or after 5 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 1,188 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2006:

Retirees and Beneficiaries Receiving Benefits	70,201
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	25,610
Active Plan Members Vested	105,215
Active Plan Members Non-Vested	49,812
Total	250,838

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; 2 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, 2007 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	6.13%**	6.13%**	6.13%***
Employee	6.00%****	4.15%****	*****

- \* The employer rates include the employer administrative expense fee currently set at 0.16%.
- \*\* The employer rate for state elected officials is 9.12% for Plan 1 and 6.13% for Plan 2 and Plan 3.
- \*\*\* Plan 3 defined benefit portion only.
- \*\*\*\* The employee rate for state elected officials is 7.50% for Plan 1 and 4.15% for Plan 2.
- \*\*\*\*\* 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's required contributions for the years ending December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2007	\$ 17,495	\$ 49,222	\$ 2,292
2006	\$ 8,145	\$ 22,109	\$ 971
2005	\$ 5,114	\$ 13,701	\$ 218

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

The Pool allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide excellent risk management services and other related services. The Pool provides “occurrence” policies for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk” basis, blanket form using current Statement of Values. The Property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost, 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 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 7 board members governs the Pool. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of the Pool.

NOTE 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	Interest Rate	Original Amount	2007 Installment
Refund 1997 G.O. Bonds	2017	3.00-4.10%	\$ 3,925,000	\$ 35,000

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

Year Ending December 31	2005 G.O. & Refunding Bonds	
	Principal	Interest
2008	\$ 65,000	\$ 152,733
2009	65,000	150,620
2010	70,000	148,339
2011	65,000	145,936
2012	70,000	143,445
2013-2017	3,525,000	369,229
Total	\$ 3,860,000	\$ 1,110,301

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, 2007, the Port's assessed value and limitation of unvoted general obligation debt are as follows:

Total Taxable Property Value	\$ 4,546,305,554
General Purpose Indebtedness Available Without a Vote	11,365,764
Indebtedness Incurred	4,476,973
Margin of Indebtedness Available Without a Vote	<u>\$ 6,888,791</u>

The revenue bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	2007 Installment
Refund of 1992 revenue bonds and capital projects including marina reconstruction, bulkhead/promenade project, a new dry stack storage facility	2017	3.75% - 4.80%	\$ 8,590,000	\$ 625,000
Acquisition of Harbor Square buildings	2016	7.38%	\$ 10,000,000	\$ 149,128

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
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	760,000	103,823	214,397	671,170
2013-2017	1,435,000	254,345	8,827,730	2,103,367
Total	\$ 4,950,000	\$ 1,090,628	\$ 9,760,844	\$ 5,598,091

The Port's revenue bonds require the Port to maintain a 1.35 coverage requirement. The Port's debt service coverage ratio was 1.95 for December 31, 2007.

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, 2007, the Port had \$1,241,186 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 matured in June 2007, and the original bonds are now paid off.

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. The trustee fully funded the debt service on June 1, 2007.

C. Operating Leases

The Port leases two copiers under operating leases that are cancelable annually. The leases expired on June 25, 2007, and are now on a month-to-month basis. The total cost for such leases was \$7,363 for the year ended December 31, 2007. There are no future minimum lease payments for these leases.

D. Changes in Long-Term Liabilities

During the year ended December 31, 2007, the following changes occurred in long-term liabilities:

	Beginning Balance <u>1/1/2007</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>12/31/2007</u>	Due Within <u>One Year</u>
Bonds Payable:					
G.O. and Refunding Bonds	\$ 3,920,000	\$ -	\$ 60,000	\$ 3,860,000	\$ 65,000
Revenue & Refunding Bonds	15,484,972	-	774,128	14,710,844	808,578
Less Deferred Amounts:					
For issuance costs	121,313	-	10,767	110,546	
Add Deferred Amounts:					
For bond premiums	11,791	-	1,080	10,711	
Total bonds payable	19,295,450	-	824,441	18,471,009	873,578
Compensated absences	65,626	131,556	115,539	81,643	
Environmental remediation liability	175,000	-	-	175,000	
Total Long-Term Liabilities	\$19,536,076	\$ 131,556	\$ 939,980	\$18,727,652	\$ 873,578

## 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. Litigation

On January 31, 2005, the Port of Edmonds contracted with Triton Marine Construction Corporation (“Triton”) to replace the north seawall/timberwall and repair the mid-marina breakwater. Triton subcontracted the mid-marina breakwater repair portion of the contract to Blackwater Marine LLC (“Blackwater”). Due to the weather and the “fish window” (the limited time period where certain work can be done over water in order to comply with regulations to protect fish species), the work was to be completed by November 30, 2005. Blackwater was unable to complete the work by that date, and the Port agreed to allow Triton and its subcontractor Blackwater to continue the work the following year, with the condition that any additional costs would be paid by Triton or Blackwater.

Prior to recommencement of the contracted work, the Port of Edmonds found that the paint had failed on the portion of work that was complete, apparently due to improper preparation of the breakwater prior to application of the paint and/or improper paint application. The following year, completed work had to be redone. Triton Marine and/or Blackwater subcontracted the mid-marina breakwater painting work to Western Industrial who completed 99% of the work by October 31, 2006.

On June 27, 2007, Blackwater filed suit against Triton and the Port of Edmonds. Blackwater’s claim against the Port of Edmonds is against the public works contract retainage in the amount of \$155,609.36; the retainage amount is now slightly higher with the addition of interest. Triton has a claim against the Port asserting that if Blackwater’s claims against Triton have merit, then the Port or its Engineers are ultimately responsible for any damages Blackwater receives from Triton. The Port has denied responsibility for any such damages.

The Port of Edmonds properly hired and relied on its engineering firm, BERGER/ABAM to specify the process, procedure, and materials required for the project and, therefore, the Port believes that it will not be liable for damages to Blackwater or to Triton, if any occurred to either.

## NOTE 10 – POLLUTION REMEDIATION OBLIGATIONS

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. The Governmental Accounting Standards Board implemented new standards for recording pollution remediation obligations for financial periods beginning after December 15, 2007. The Port will review the standards in 2008, and make any required adjustments.

#### NOTE 11 – OTHER DISCLOSURES

##### A. Reclassification

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

##### B. Special Items

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 and Harbor Square settled the lawsuit through mediation in November 2005. The Port agreed to purchase five buildings and Harbor Square's leasehold interest in those buildings from Harbor Square. This purchase was finalized in March 2006.

In 2007, the Port of Edmonds requested and received insurance reimbursement for attorney fees of \$150,000 related to the Harbor Square Associates lawsuit against the Port of Edmonds.

**SUPPLEMENTARY INFORMATION**

PORT OF EDMONDS  
 DETAIL OF REVENUES AND OTHER SOURCES  
 For the Year Ended December 31, 2007

MCAG No. 1759

Schedule 04

BARS Revenue Account No.	Description	Actual Revenues
621.00	Marina user charges	\$ 2,697,716
622.00	Marina user charges	86,569
625.00	Marina real property rentals – facilities	127,735
626.00	Marina real property rentals – facilities	1,381,953
627.00	Marina personal property rentals – w/ port operators	170,047
629.00	Other	31,499
620.00	Total Marina Revenues	4,495,519
661.00	Property lease/rental - user charges	109,624
664.00	Real property rentals – land	182,773
665.00	Real property rentals – facilities	1,766,539
660.00	Total Property Lease/Rental Revenues	2,058,936
693.90	Disaster grants - public assistance	3,750
699.10	Interest income	288,890
699.20	Ad valorem taxes	358,061
699.40	Gains and losses	19,055
699.50	Special items	150,000
699.00	Total Nonoperating Revenues	819,756
600.00	Total Revenues	\$ 7,374,211

PORT OF EDMONDS  
 DETAIL OF EXPENSES AND OTHER USES  
 For the Year Ended December 31, 2007

MCAG No. 1759

Schedule 05

BARS Expense Account No.	Description	Actual Expenses
721.00	Marina operations	\$ 2,164,675
723.00	Marina maintenance	202,539
725.00	Marina allocated general and administrative	627,152
727.00	Marina depreciation	1,130,374
720.00	Total Marina Expenses	4,124,740
761.00	Property lease/rental operations	438,344
763.00	Property lease/rental maintenance	390,819
765.00	Property lease/rental allocated general and administrative	287,757
767.00	Property lease/rental depreciation	530,284
760.00	Total Property Lease/Rental Expenses	1,647,204
799.90	Other expense	-
799.91	Interest expense	1,183,749
799.92	Election expense	3,885
790.00	Total Nonoperating Expenses	1,187,634
700.00	Total Expenses	\$ 6,959,578

PORT OF EDMONDS  
 SCHEDULE OF LONG-TERM DEBT  
 For the Year Ended December 31, 2007

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 1/1/07	(2) AMOUNT ISSUED IN CURRENT YEAR	(3) AMOUNT REDEEMED IN CURRENT YEAR	(4) ENDING OUTSTANDING DEBT 12/31/07 (1) + (2) - (3)
251.11	Reconstruction	6/97	6/07 - called	\$ 25,000	\$ -	\$ 25,000	\$ -
251.15	Refund 1997 Bonds	5/05	6/17	3,895,000	-	35,000	3,860,000
	Total G.O. Debt			\$ 3,920,000	\$ -	\$ 60,000	\$ 3,860,000

G.O. Debt  
 Revenue Debt

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				(1)	(2)	(3)	(4)
I.D. NO.	PURPOSE	DATE OF ORIGINAL ISSUE	DATE OF MATURITY	BEGINNING OUTSTANDING DEBT 1/1/07	AMOUNT ISSUED IN CURRENT YEAR	AMOUNT REDEEMED IN CURRENT YEAR	ENDING OUTSTANDING DEBT 12/31/07 (1) + (2) - (3)
252.11, 252.15	Improvements Refunding	1/98	7/17	\$ 5,575,000	-	\$ 625,000	\$ 4,950,000
252.11	Acquisition of Harbor Square buildings	3/06	4/16	9,909,972	-	149,128	9,760,844
	Total Revenue Debt			\$ 15,484,972	-	\$ 774,128	\$ 14,710,844

PORT OF EDMONDS  
SCHEDULE OF LIMITATION OF INDEBTEDNESS  
AS OF DECEMBER 31, 2007

MCAG No. 1759

Schedule 10  
Page 1 of 3

Total Taxable Property Value	\$ 4,546,305,554	
I. Indebtedness <u>Without</u> a Vote (Legal Limit .25% or .375% If I.B. Is Applicable)		<u>\$ 11,365,764</u>
A. General Purpose Indebtedness <u>Without</u> a Vote (Legal Limit .25%)	<u>\$ 11,365,764</u>	
Indebtedness (Liabilities)		
GO Bonds	3,860,000	
Others	616,973	
Less Assets Available	-	
Indebtedness Incurred - Section A	<u>4,476,973</u>	
Margin of Indebtedness Available - Section A	<u><u>6,888,791</u></u>	
B. Indebtedness for Acquisition or Construction of a Facility <u>Without</u> a Vote (Legal Limit .375% Including I.A.)	<u>N/A</u>	
Indebtedness (Liabilities)		
GO Bonds	-	
Others	-	
Less Assets Available	-	
Indebtedness Incurred -Section B	<u>-</u>	
Margin of Indebtedness Available - Section B	<u><u>\$ -</u></u>	
Less: Indebtedness Incurred (Section A + B)		<u>(4,476,973)</u>
Margin of Indebtedness Available <u>Without</u> a Vote (Section A + B)		<u><u>\$ 6,888,791</u></u>

II. Indebtedness With a 3/5 Vote	<u>\$ 22,731,528</u>	
Indebtedness (Liabilities)		
GO Bonds	-	
Others	-	
Less Assets Available	-	
Indebtedness Incurred - Section II	<u>-</u>	
Margin of Indebtedness Available with a 3/5 Vote	<u>22,731,528</u>	
Total Indebtedness Allowable - Section I and II (Legal Limit .75%)		<u>\$ 34,097,292</u>
Less: Indebtedness Incurred (Section I + II)		<u>(4,476,973)</u>
MARGIN OF INDEBTEDNESS AVAILABLE		<u>29,620,319</u>
III. Additional Indebtedness for Airport Capital Improvement Purposes <u>Without</u> a Vote (Legal Limit .125%)	<u>N/A</u>	
Indebtedness (Liabilities)		
GO Bonds	-	
Others	-	
Less Assets Available	-	
Indebtedness Incurred - Section III	<u>-</u>	
Margin Of Indebtedness Available - Section III	<u>-</u>	
IV. Additional Indebtedness for Airport Capital Improvement Purposes with a 3/5 Vote (Legal Limit .125%)	<u>N/A</u>	
Indebtedness (Liabilities)		
GO Bonds	-	
Others	-	
Less Assets Available	-	
Indebtedness Incurred - Section IV	<u>-</u>	
Margin Of Indebtedness Available - Section IV	<u>\$ -</u>	
Total Indebtedness Allowable - Section I - IV (Legal Limit 1.25%)		34,097,292
Less: Indebtedness Incurred (Section I - IV)		<u>(4,476,973)</u>
MARGIN OF INDEBTEDNESS AVAILABLE		<u>\$ 29,620,319</u>

V. Additional Indebtedness for Foreign Trade Zone With a 3/5 Vote (Legal Limit 1.0%)	<u>N/A</u>	
Indebtedness (Liabilities)		
GO Bonds	\$ -	
Others	-	
Less Assets Available	<u>-</u>	
Indebtedness Incurred - Section V		<u>\$ -</u>
 MARGIN OF INDEBTEDNESS AVAILABLE		 <u><u>\$ 29,620,319</u></u>

PORT OF EDMONDS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2007

MCAG No. 1759

Schedule 16

1	2	3	4	5			6
Federal Agency Name / Pass through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Footnote Ref.
				From Pass through Awards	From Direct Awards	Total	
Management Agency, Department of Homeland Security / State of WA Military Department, Emergency Management	Public Assistance / Washington Severe Winter Storm	97.036	FEMA- 1682-DR- WA	\$ 3,900	\$ -	\$ 3,900	1, 2
Management Agency, Department of Homeland Security / State of WA Military Department, Emergency Management	Public Assistance / Washington Severe Winter Storm	97.036	FEMA- 1734-DR- WA	57,734		57,734	1, 2
Total Federal Awards Expended				\$ 61,634	\$ -	\$ 61,634	1, 2

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the Port's financial statements. The Port uses the full-accrual basis of accounting.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the project costs. The entire project cost, including the Port's portion (matching funds), are more than shown.

PORT OF EDMONDS  
 SCHEDULE OF STATE/LOCAL FINANCIAL ASSISTANCE  
 For the Year Ended December 31, 2007

MCAG No. 1759

Schedule 16

1	2	3
Grantor/Program Title	Identification Number	Current Year Expenses
<b>State Awards</b>		
Washington Military Department	FEMA-1682-DR-WA	\$ 625
<b>Total State Awards Expended</b>		<b>625</b>
<b>Local Awards</b>		
Snohomish County Public Utility District No. 1 / Energy Retrofit Incentive Payment	P-1849 - Pt of Ed Admin & Harbor Square	20,621
<b>Total Local Awards Expended</b>		<b>20,621</b>
<b>Total State and Local Awards Expended</b>		<b>\$ 21,246</b>

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the Port's financial statements. The Port uses the full-accrual basis of accounting.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the state and local grant portion of the project costs. The entire project cost, including the Port's portion (matching funds), are more than shown.

PORT OF EDMONDS  
SCHEDULE OF LABOR RELATIONS CONSULTANT(S)  
For the Year Ended December 31, 2007

MCAG No. 1759

Schedule 19

Has your government engaged labor relations consultants? No

Certified Correct this 22<sup>nd</sup> Day of May, 2008 to the Best of My Knowledge and Belief:

SIGNATURE: *Tina Drennan*

NAME: Tina Drennan, CPA, PFO

TITLE: Finance Manager