

**Washington State Auditor's Office**  
**Financial Statements Audit Report**

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**Port of Edmonds**  
**Snohomish County**

Audit Period  
**January 1, 2008 through December 31, 2009**

**Report No. 1004861**

Issue Date  
**January 3, 2011**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

January 3, 2011

Board of Commissioners  
Port of Edmonds  
Edmonds, Washington

***Report on Financial Statements***

Please find attached our report on the Port of Edmonds' financial statements.

We are issuing this report in order to provide information on the Port's financial condition.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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Snohomish County  
January 1, 2008 through December 31, 2009**

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**Independent Auditor's Report on Internal  
Control over Financial Reporting and on  
Compliance and Other Matters in Accordance  
with *Government Auditing Standards***

**Port of Edmonds  
Snohomish County  
January 1, 2008 through December 31, 2009**

Board of Commissioners  
Port of Edmonds  
Edmonds, Washington

We have audited the basic financial statements of the Port of Edmonds, Snohomish County, Washington, as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated December 20, 2010. During the year ended December 31, 2008, the Port implemented Governmental Accounting Standards Board Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*. During the year ended December 31, 2009, the Port implemented Governmental Accounting Standards Board Statement No. 45 – *Accounting and Financial Reporting for OPEB Liabilities*.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audits, we considered the Port's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Port's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Port's financial statements are free of material misstatement, we performed tests of the Port's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the audit committee, management and the Board of Commissioners. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with a large initial "B" and "S".

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

December 20, 2010

# **Independent Auditor's Report on Financial Statements**

**Port of Edmonds  
Snohomish County  
January 1, 2008 through December 31, 2009**

Board of Commissioners  
Port of Edmonds  
Edmonds, Washington

We have audited the accompanying basic financial statements of the Port of Edmonds, Snohomish County, Washington, as of and for the years ended December 31, 2009 and 2008, as listed on page 5. These financial statements are the responsibility of the Port's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Edmonds, as of December 31, 2009 and 2008, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 11, during the year ended December 31, 2008, the Port implemented Governmental Accounting Standards Board Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*.

As described in Note 10, during the year ended December 31, 2009, the Port Governmental Accounting Standards Board Statement No. 45 – *Accounting and Financial Reporting for OPEB Liabilities*.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an

integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 6 through 21 and information on postemployment benefits other than pensions on page 68 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

December 20, 2010

# **Financial Section**

**Port of Edmonds  
Snohomish County  
January 1, 2008 through December 31, 2009**

***REQUIRED SUPPLEMENTAL INFORMATION***

Management's Discussion and Analysis – 2009  
Management's Discussion and Analysis – 2008

***BASIC FINANCIAL STATEMENTS***

Statement of Net Assets – 2009  
Statement of Net Assets – 2008  
Statement of Revenues, Expenses and Changes in Net Assets – 2009  
Statement of Revenues, Expenses and Changes in Net Assets – 2008  
Statement of Cash Flows – 2009  
Statement of Cash Flows – 2008  
Notes to Financial Statements – 2009  
Notes to Financial Statements – 2008

***REQUIRED SUPPLEMENTAL INFORMATION***

Other Post Employment Benefits – Schedule of Funding Progress – 2009

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, 2009. 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

The Port's overall operating revenues increased by \$60,561, or 1% over 2008. The increase is due to a combination of factors including an increase in moorage rates, an increase in launcher usage, an increase in guest moorage usage, an increase in workyard usage, and a land lease for parking. In 2009, the Port experienced a decrease in fuel revenue, as the cost of fuel decreased from 2008. The Port's non-operating income decreased by \$212,407, or 30% from 2008. This decrease is due to the decrease in interest income. In 2008, the Port also received reimbursement from FEMA and its insurance company for damages suffered in the December 2007 storm.

The Port's overall operating costs increased in 2009 by \$33,343, or .6% over 2008 operating expense levels. The Port's non-operating expenses decreased by \$25,079, or 2% from 2008

The Port's overall operating income was \$784,366 in 2009.

The Port's net assets increased by \$52,671 from 2008.

The Port's assets exceeded its liabilities by \$28,102,919 (net assets) as of December 31, 2009.

## 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 2009, the Port’s Net Assets increased by \$52,671 or 0.19%, which shows that the Port of Edmonds performed about the same

in 2009 and 2008. Cash flows show if the Port is spending more money than it received. In 2009, the Port of Edmonds received \$801,061 more than it spent. Overall, the Port is in a better financial position than it was in 2008.

**FINANCIAL ANALYSIS – STATEMENT OF NET ASSETS**

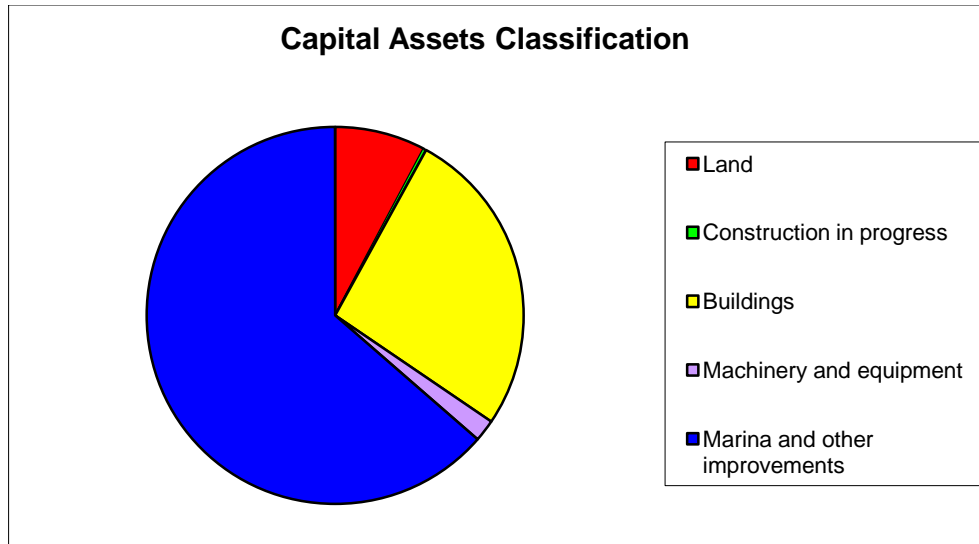
Summary of Assets, Liabilities, and Net Assets				
	2009	2008	Increase (Decrease)	% Change
Current Assets	\$ 6,551,011	\$ 5,724,425	\$ 826,586	14.44%
Restricted Assets	800,900	800,900	-	0.00%
Capital Assets	37,832,372	39,359,620	(1,527,248)	-3.88%
Other Noncurrent Assets	260,893	372,535	(111,642)	-29.97%
<b>Total Assets</b>	<b>45,445,176</b>	<b>46,257,480</b>	<b>(812,304)</b>	<b>-1.76%</b>
Current Liabilities	1,950,031	1,875,414	74,617	3.98%
Noncurrent Liabilities	15,392,226	16,331,818	(939,592)	-5.75%
<b>Total Liabilities</b>	<b>17,342,257</b>	<b>18,207,232</b>	<b>(864,975)</b>	<b>-4.75%</b>
Invested in Capital Assets, Net of Related Debt	22,177,222	22,733,605	(556,383)	-2.45%
Unrestricted	5,925,697	5,316,643	609,054	11.46%
<b>Total Net Assets</b>	<b>28,102,919</b>	<b>28,050,248</b>	<b>52,671</b>	<b>0.19%</b>
<b>Total Liabilities and Net Assets</b>	<b>\$45,445,176</b>	<b>\$46,257,480</b>	<b>\$ (812,304)</b>	<b>-1.76%</b>

This discussion of the Port’s financial statements includes an analysis of major changes in the assets and liabilities for 2009, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port’s Net Assets increased by \$52,671, or 0.19% in 2009, for a total of \$28,102,919. Of this amount \$22,177,222 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.

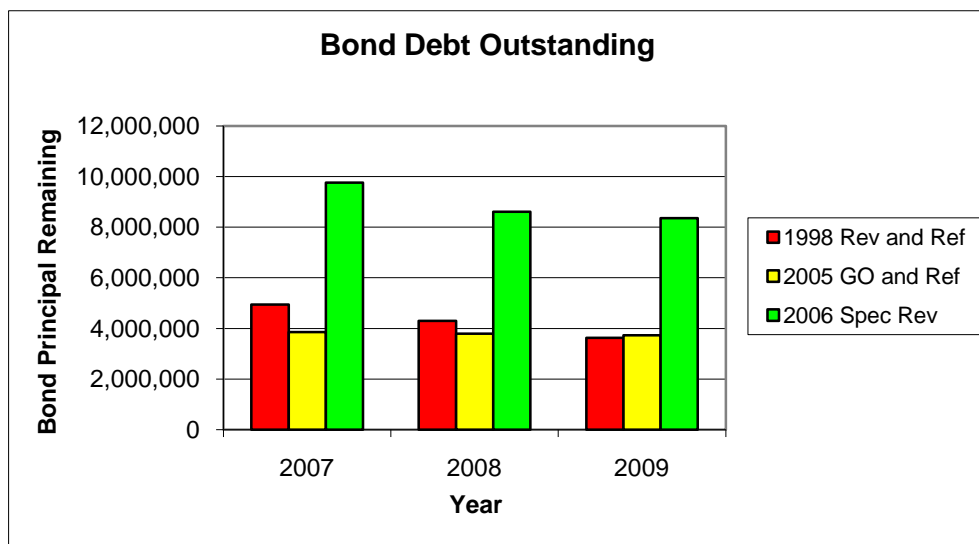
The Port maintained capital assets of \$37,832,372 as of December 31, 2009. The book value of the assets decreased by \$1,527,248 in 2009 as a result of investments in capital assets, offset by depreciation charged against revenue in the year. When the Port invests more than depreciation in new capital 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, 2009 are debts that the Port will repay in 2010. The total current liabilities increased by \$74,617 in 2009. 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 2010.

The Port's long term liabilities decreased by \$939,592 in 2009, as the Port made principal payments on its bonds. General Obligation bonds outstanding at December 31, 2009 were \$3,730,000, a decrease of \$65,000 from 2008. Revenue and Refunding bonds outstanding at December 31, 2009 were \$11,983,887, a decrease of \$924,885 from the prior year. See Note 8 in the Notes to the Financial Statements for more information.



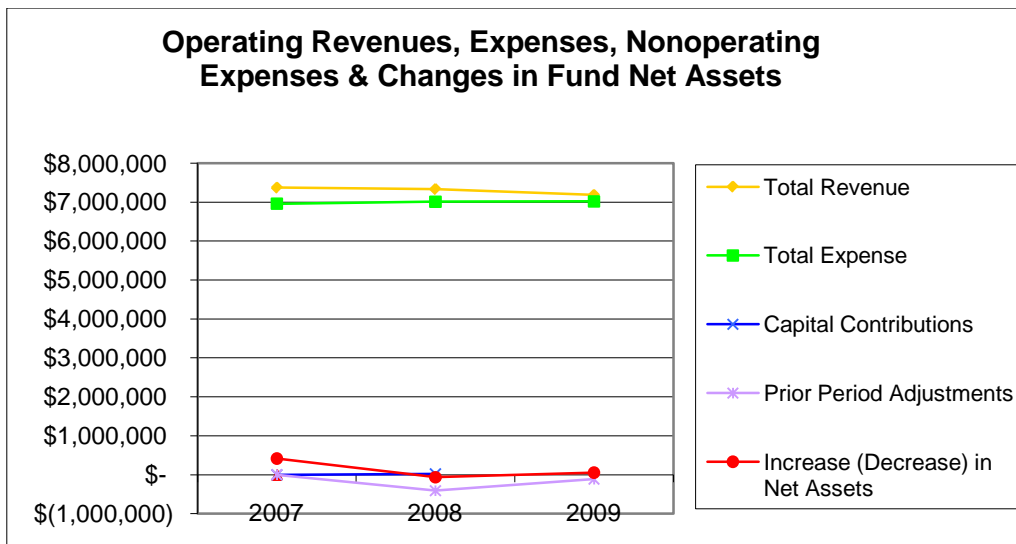
**FINANCIAL ANALYSIS – REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**

Summary of Revenues, Expenses, and Changes in Fund Net Assets				
	2009	2008	Increase (Decrease)	% Change
Operating Revenues	\$ 6,688,963	\$ 6,628,402	\$ 60,561	0.91%
Nonoperating Revenues	495,831	708,238	(212,407)	-29.99%
<b>Total Revenues</b>	<b>7,184,794</b>	<b>7,336,640</b>	<b>(151,846)</b>	<b>-2.07%</b>
Operating Expenses	5,904,598	5,871,255	33,343	0.57%
Nonoperating Expenses	1,114,171	1,139,250	(25,079)	-2.20%
<b>Total Expenses</b>	<b>7,018,769</b>	<b>7,010,505</b>	<b>8,264</b>	<b>0.12%</b>
Capital Contributions	-	20,621	(20,621)	N/A
Prior Period Adjustments	(113,354)	28,210	(141,564)	N/A
Change in Accounting Principle	-	(437,500)	437,500	N/A
<b>Increase/(Decrease) in Net Assets</b>	<b>\$ 52,671</b>	<b>\$ (62,534)</b>	<b>\$ 115,205</b>	<b>284.23%</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 \$151,846 from 2008. Operating revenues increased by \$60,561 over 2008. Nonoperating revenues decreased by \$212,407 in 2009.

Expenses increased by \$8,264 in 2009. Operating expenses increased by 33,343 from 2008. Nonoperating expenses decreased by \$25,079 in 2009.

Nonoperating revenue included an increase in property and leasehold taxes of \$6,796. Interest income decreased by \$99,818 as a result of lower interest rates. Interest expense decreased by \$34,726 as the Port paid down the principal on its bonds.



Summary of Revenues, Expenses, and Changes in Net Assets			
	<u>2007</u>	<u>2008</u>	<u>2009</u>
Total Revenue	\$ 7,374,211	\$ 7,336,640	\$ 7,184,794
Total Expense	6,959,578	7,010,505	7,018,769
Capital Contributions	-	20,621	-
Prior Period Adjustments	-	(409,290)	(113,354)
Increase (Decrease) in Net Assets	<u>\$ 414,633</u>	<u>\$ (62,534)</u>	<u>\$ 52,671</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 two 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. 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 a "pass through" claim 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) together with the unpaid contract balance in the amount of \$25,000.00, as well as an "equitable adjustment" in the approximate amount of \$1,200,000.00 for the cost of re-performing the work in 2006. (The claim is a "pass through" claim because Triton, as the general contractor, 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 incurred by Blackwater.) The Port has denied responsibility for any such damages, has asserted that the claims are not supported by Blackwater's actual costs, and has asserted back-charge claims against Triton for failure to complete punch-list work.

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.

The trial is expected to start in June 2010.

2. 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 identified at the property 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 \$175,000 and \$1,050,000. Please see Note 11 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  
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, 2008. 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.

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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

The Port's overall operating revenues increased by \$73,947, or 1% over 2007. The increase is due to several factors including an increase in moorage and dry storage rates, and an increase in fuel prices. In 2008, the Port experienced a decrease in boating activity such as guest moorage, launches, and gallons of fuel sold. The Port's non-operating income decreased by \$111,518, or 14% from 2008. This decrease is primarily due to the decrease in interest income.

The Port's overall operating costs increased in 2008 by \$99,311, or 2% over 2007 operating expense levels. The Port's non-operating expenses decreased by \$48,384, or 4% from 2007.

The Port's overall operating income was \$757,147 in 2008.

The Port's net assets decreased by \$62,534 from 2007.

The Port's assets exceeded its liabilities by \$28,050,248 (net assets) as of December 31, 2008.

## 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.

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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.

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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.

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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 2008, the Port’s Net Assets decreased by \$62,534 or 0.22%, which shows that the Port of Edmonds performed about the same in 2008 and 2007. Cash flows show if the Port is spending more money than it received.

In 2008, the Port of Edmonds spent \$37,284 more than it received. The Port made an additional payment of \$966,880 in 2008 to reduce its bond debt. Overall, the Port is in a better financial position than it was in 2007.

**FINANCIAL ANALYSIS – STATEMENT OF NET ASSETS**

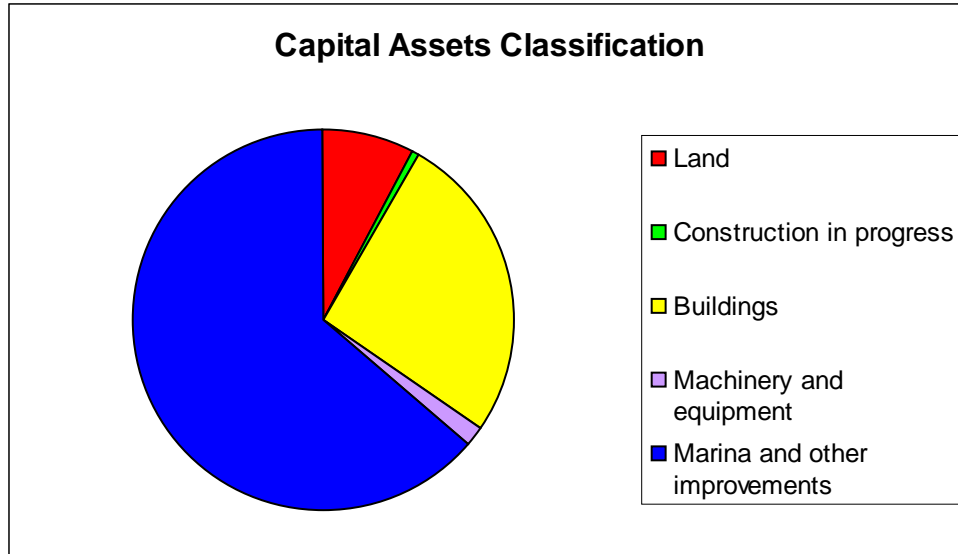
Summary of Assets, Liabilities, and Net Assets				
	2008	2007	Increase (Decrease)	% Change
Current Assets	\$ 5,724,425	\$ 5,846,791	\$ (122,366)	-2.09%
Restricted Assets	800,900	800,900	-	0.00%
Capital Assets	39,359,620	40,760,516	(1,400,896)	-3.44%
Other Noncurrent Assets	372,535	485,002	(112,467)	-23.19%
<b>Total Assets</b>	<b>46,257,480</b>	<b>47,893,209</b>	<b>(1,635,729)</b>	<b>-3.42%</b>
Current Liabilities	1,875,414	1,926,349	(50,935)	-2.64%
Noncurrent Liabilities	16,331,818	17,854,078	(1,522,260)	-8.53%
<b>Total Liabilities</b>	<b>18,207,232</b>	<b>19,780,427</b>	<b>(1,573,195)</b>	<b>-7.95%</b>
Invested in Capital Assets, Net of Related Debt	22,733,605	22,301,269	432,336	1.94%
Unrestricted	5,316,643	5,811,513	(494,870)	-8.52%
<b>Total Net Assets</b>	<b>28,050,248</b>	<b>28,112,782</b>	<b>(62,534)</b>	<b>-0.22%</b>
<b>Total Liabilities and Net Assets</b>	<b>\$46,257,480</b>	<b>\$47,893,209</b>	<b>\$(1,635,729)</b>	<b>-3.42%</b>

This discussion of the Port’s financial statements includes an analysis of major changes in the assets and liabilities for 2008, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port’s Net Assets decreased by \$62,534, or 0.22% in 2008, for a total of \$28,050,248. Of this amount \$22,733,605 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.

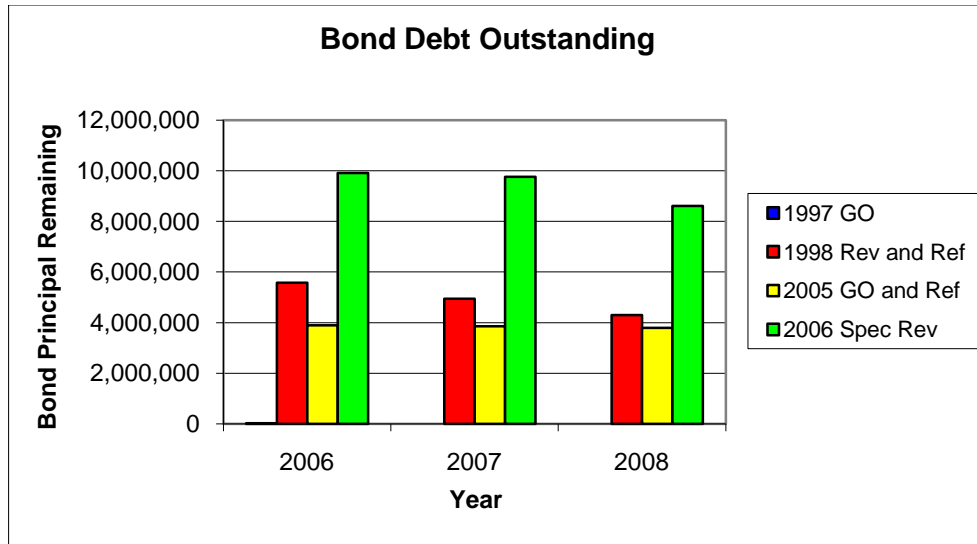
The Port maintained capital assets of \$39,359,620 as of December 31, 2008. The book value of the assets decreased by \$1,400,896 in 2008 as a result of investments in capital assets, offset by depreciation charged against revenue in the year. When the Port invests more than depreciation in new capital 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, 2008 are debts that the Port will repay in 2009. The total current liabilities decreased by \$50,935 in 2008. 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 2009.

The Port's long term liabilities decreased by \$1,522,260 in 2008, as the Port made principal payments on its bonds. As mentioned previously, the Port made an additional bond payment of \$966,880 in 2008. General Obligation bonds outstanding at December 31, 2008 were \$3,795,000, a decrease of \$65,000 from 2007. Revenue and Refunding bonds outstanding at December 31, 2008 were \$12,908,772, a decrease of \$1,802,072 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**

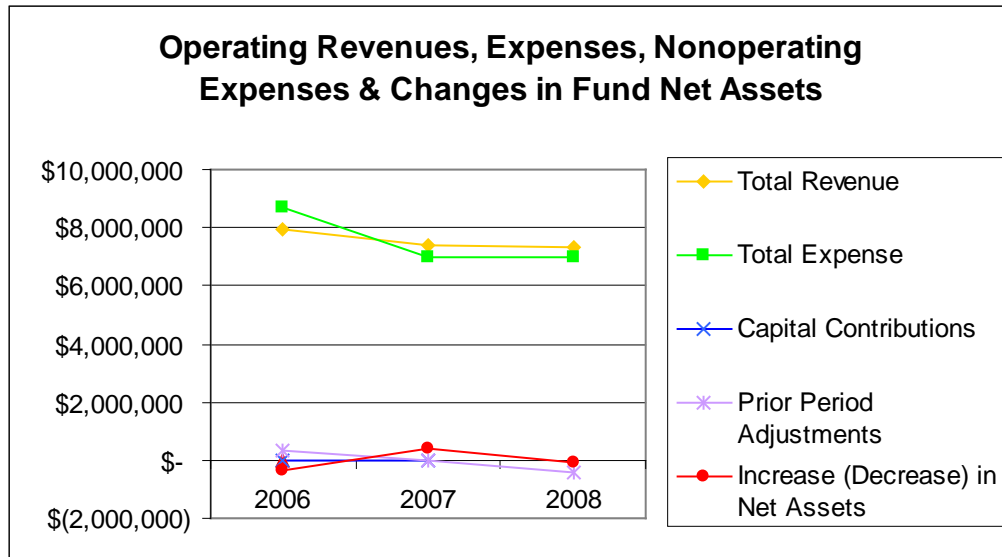
Summary of Revenues, Expenses, and Changes in Fund Net Assets				
	2008	2007	Increase (Decrease)	% Change
Operating Revenues	\$ 6,628,402	\$ 6,554,455	\$ 73,947	1.13%
Nonoperating Revenues	708,238	819,756	(111,518)	-13.60%
<b>Total Revenues</b>	<b>7,336,640</b>	<b>7,374,211</b>	<b>(37,571)</b>	<b>-0.51%</b>
Operating Expenses	5,871,255	5,771,944	99,311	1.72%
Nonoperating Expenses	1,139,250	1,187,634	(48,384)	-4.07%
<b>Total Expenses</b>	<b>7,010,505</b>	<b>6,959,578</b>	<b>50,927</b>	<b>0.73%</b>
Capital Contributions	20,621	-	20,621	N/A
Prior Period Adjustments	28,210	-	28,210	N/A
Change in Accounting Principle	(437,500)	-	(437,500)	N/A
<b>Increase/(Decrease) in Net Assets</b>	<b>\$ (62,534)</b>	<b>\$ 414,633</b>	<b>\$ (477,167)</b>	<b>215.08%</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 \$37,571 from 2007. Operating revenues increased by \$73,947 over 2007. Nonoperating revenues decreased by \$111,518 in 2008.

Expenses increased by \$50,927 in 2008.

Nonoperating income included an increase in property taxes of \$44,743. Interest income decreased by \$111,643 as a result of lower interest rates. Interest expense decreased by \$132,202 as the Port paid down the principal on its bonds. In December 2007, one of the Port’s buildings flooded. In 2008, the Port repaired the damage and received reimbursement of

\$79,525 from FEMA and \$45,848 from the Port's insurance company. Also in 2008, the Port recorded additional environmental remediation liabilities of \$437,500 due to a change in accounting standards.



Summary of Revenues, Expenses, and Changes in Net Assets			
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Total Revenue	\$ 7,946,650	\$ 7,374,211	\$ 7,336,640
Total Expense	8,692,460	6,959,578	7,010,505
Capital Contributions	5,000	-	20,621
Prior Period Adjustments	356,250	-	(409,290)
Increase (Decrease) in Net Assets	<u>\$ (384,560)</u>	<u>\$ 414,633</u>	<u>\$ (62,534)</u>

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 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 six 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 six Harbor Square buildings on March 31, 2006. The Port operates the property, which is managed by a property management company.
2. One of the Port's land lease agreements takes effect when the lessee takes control of the property in 2009. This agreement will increase the Port's property lease revenue over the next 30 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 storm water discharge benchmarks. The Department of Ecology is currently reviewing the permit, with the intent of further reducing discharge limits. With the Port's current technology, it is unable to consistently meet the current benchmarks, and will not be able to meet the reduced benchmarks. The Port is investigating different technologies and cleaning methodologies.
4. The Port of Edmonds expects to proceed with its Harbor Square Master Plan in 2009, which will show possible development opportunities for the property. The redevelopment of the Harbor Square Property is unlikely to occur in the next five years.
5. 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.

6. 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 identified at the property 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 \$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, 2009

ASSETS

CURRENT ASSETS

Cash and cash equivalents (Notes 1 and 2)	\$ 5,643,138
Restricted Assets	
Cash and cash equivalents (Notes 1 and 2)	447,467
Accrued interest receivable (Note 1)	3,464
Taxes receivable (Notes 1 and 3)	10,078
Accounts receivable (net of allowance for uncollectibles) (Note 1)	237,667
Inventory (Note 1)	54,677
Prepays	154,520
Total Current Assets	6,551,011

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	134,791
Capital Assets Being Depreciated (Note 4)	
Buildings	14,767,374
Marina and other improvements	35,443,514
Machinery and equipment	1,044,928
Less: Accumulated depreciation	(17,881,910)
Total Net Capital Assets	37,832,372

Other Noncurrent Assets

Lease acquisition costs, net of accumulated amortization (Note 1)	63,480
Deferred interest (Note 8)	197,413
Total Other Noncurrent Assets	260,893

TOTAL ASSETS

\$ 45,445,176

See accompanying notes to the financial statements.

PORT OF EDMONDS  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2009

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 321,668
Accrued expenses (Note 1)	93,725
Accrued interest payable (Note 8)	96,915
Customer deposits	398,457
Current portion of long-term obligations (Note 8)	<u>1,039,266</u>
Total Current Liabilities	<u>1,950,031</u>

NONCURRENT LIABILITIES

General obligation bonds, net of current portion (Note 8)	3,630,050
Revenue bonds, net of current portion (Note 8)	10,985,834
Employee leave benefits (Note 1)	76,497
Other postemployment benefits (Note 10)	87,345
Environmental remediation liability (Note 11)	<u>612,500</u>
Total Noncurrent Liabilities	<u>15,392,226</u>

TOTAL LIABILITIES	<u>17,342,257</u>
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NET ASSETS

Invested in capital assets, net of related debt	22,177,222
Unrestricted	<u>5,925,697</u>
TOTAL NET ASSETS	<u>28,102,919</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 45,445,176</u>
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See accompanying notes to the financial statements.

PORT OF EDMONDS  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2008

ASSETS

CURRENT ASSETS

Cash and cash equivalents (Notes 1 and 2)	\$ 4,842,385
Restricted Assets	
Cash and cash equivalents (Notes 1 and 2)	447,159
Taxes receivable (Notes 1 and 3)	8,051
Accounts receivable (net of allowance for uncollectibles) (Note 1)	205,671
Accrued interest receivable (Note 1)	1,325
Inventory (Note 1)	67,022
Prepays	152,812
Total Current Assets	5,724,425

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	245,550
Capital Assets Being Depreciated (Note 4)	
Buildings	14,764,260
Marina and other improvements	35,309,406
Machinery and equipment	968,982
Less: Accumulated depreciation	(16,252,253)
Total Net Capital Assets	39,359,620

Other Noncurrent Assets

Lease acquisition costs, net of accumulated amortization (Note 1)	126,971
Deferred interest (Note 8)	245,564
Total Other Noncurrent Assets	372,535

TOTAL ASSETS	\$ 46,257,480
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See accompanying notes to the financial statements.

PORT OF EDMONDS  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2008

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 273,737
Accrued expenses (Note 1)	102,971
Accrued interest payable (Note 8)	112,110
Customer deposits	396,684
Current portion of long-term obligations (Note 8)	989,912
Total Current Liabilities	<u>1,875,414</u>

NONCURRENT LIABILITIES

General obligation bonds, net of current portion (Note 8)	3,689,838
Revenue bonds, net of current portion (Note 8)	11,946,265
Employee leave benefits (Note 1)	83,215
Environmental remediation liability (Note 10)	612,500
Total Noncurrent Liabilities	<u>16,331,818</u>

TOTAL LIABILITIES	<u>18,207,232</u>
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NET ASSETS

Invested in capital assets, net of related debt	22,733,605
Unrestricted	5,316,643
TOTAL NET ASSETS	<u>28,050,248</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 46,257,480</u>
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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, 2009

OPERATING REVENUES (Note 1)	
Marina operations	\$ 4,687,494
Property lease/rental operations	2,001,469
Total Operating Revenues	<u>6,688,963</u>
OPERATING EXPENSES (Note 1)	
General operations	2,927,226
Maintenance	361,255
General and administrative	922,969
Depreciation and amortization (Note 4)	1,693,148
Total Operating Expenses	<u>5,904,598</u>
Operating Income	<u>784,365</u>
NONOPERATING REVENUES (EXPENSES) (Note 1)	
Disaster grant - public assistance (Note 12)	8,802
Investment income	77,429
Taxes levied for general purposes (Note 3)	409,600
Loss on disposition of fixed assets	(70,948)
Interest expense (Note 8)	(1,016,822)
Bond issuance expenses (Notes 1 and 8)	(20,396)
Election expense	(6,005)
Total Nonoperating Revenues (Expenses)	<u>(618,340)</u>
Income before other revenues, expenses, gains, losses, and transfers	166,025
Capital contributions	<u>-</u>
Increase in net assets	<u>166,025</u>
Net assets - beginning of period	28,050,248
Prior period adjustment (Note 12)	(113,354)
Net assets - end of period	<u><u>\$ 28,102,919</u></u>

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, 2008

OPERATING REVENUES (Note 1)	
Marina operations	\$ 4,692,403
Property lease/rental operations	1,935,999
Total Operating Revenues	<u>6,628,402</u>
OPERATING EXPENSES (Note 1)	
General operations	2,905,905
Maintenance	466,194
General and administrative	819,161
Depreciation and amortization (Note 4)	1,679,995
Total Operating Expenses	<u>5,871,255</u>
Operating Income	<u>757,147</u>
NONOPERATING REVENUES (EXPENSES) (Note 1)	
Disaster grant - public assistance (Note 11)	79,525
Investment income	177,247
Taxes levied for general purposes (Note 3)	402,804
Gain on disposition of fixed assets	2,814
Interest expense (Note 8)	(1,051,547)
Bond issuance expenses (Notes 1 and 8)	(23,480)
Other nonoperating revenues (expenses)	-
Total Nonoperating Revenues (Expenses)	<u>(412,637)</u>
Income before other revenues, expenses, gains, losses, and transfers	344,510
Capital contributions (Note 11)	20,621
Storm damage repair expenses (Note 11)	(64,223)
Reimbursement for Storm Damage Expenses from Insurance Companies (Note 11)	<u>45,848</u>
Increase in net assets	<u>346,756</u>
Net assets - beginning of period	28,112,782
Prior period adjustment (Note 11)	28,210
Change in accounting principle (Notes 10 and 11)	(437,500)
Net assets - end of period	<u><u>\$ 28,050,248</u></u>

See accompanying notes to the financial statements.

PORT OF EDMONDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2009

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers (Note 1)	\$ 6,661,381
Payments to suppliers	(1,993,631)
Payments to employees	(2,087,870)
Net cash provided by operating activities	<u>2,579,880</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Proceeds from property taxes (Note 3)	407,574
Nonoperating receipts	10,575
Nonoperating expenses	(6,005)
Net cash provided by noncapital financing activities	<u>412,144</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases and construction of capital assets (Note 4)	(291,125)
Principal paid on capital debt (Note 8)	(989,885)
Interest paid on capital debt (Note 8)	(985,243)
Net cash used by capital and related financing activities	<u>(2,266,253)</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	75,290
Net cash provided by investing activities	<u>75,290</u>
Net increase in cash and cash equivalents	801,061
Balances - beginning of the year	<u>5,289,544</u>
Balances - end of the year (Note 1)	<u><u>6,090,605</u></u>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>	
Operating income	784,365
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization expense (Note 4)	1,693,148
Prior period adjustment	4,414
Changes in assets and liabilities	
Receivables, net	(31,996)
Inventories	12,345
Prepaid expenses	(1,708)
Accounts and other payables	47,931
Accrued expenses	71,381
Net cash provided by operating activities	<u><u>\$ 2,579,880</u></u>

See accompanying notes to the financial statements.

PORT OF EDMONDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2008

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers (Note 1)	\$ 6,688,268
Payments to suppliers	(2,369,284)
Payments to employees	(1,880,328)
Net cash provided by operating activities	<u>2,438,656</u>
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Proceeds from property taxes (Note 3)	404,444
Nonoperating receipts	153,583
Nonoperating expenses	(64,223)
Customer deposits	(6,099)
Net cash provided by noncapital financing activities	<u>487,705</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital contributions (Note 11)	20,621
Purchases and construction of capital assets (Note 4)	(212,793)
Principal paid on capital debt (Note 8)	(1,867,072)
Interest paid on capital debt (Note 8)	(1,080,323)
Net cash used by capital and related financing activities	<u>(3,139,567)</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	175,922
Net cash provided by investing activities	<u>175,922</u>
Net decrease in cash and cash equivalents	(37,284)
Balances - beginning of the year	5,326,828
Balances - end of the year (Note 1)	<u>5,289,544</u>
 <b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>	
Operating income	757,147
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation and amortization expense (Note 4)	1,679,995
Changes in assets and liabilities	
Receivables, net	59,866
Inventories	(440)
Prepaid expenses	25,341
Accounts and other payables	(114,489)
Accrued expenses	31,236
Net cash provided by operating activities	<u>\$ 2,438,656</u>

See accompanying notes to the financial statements.

PORT OF EDMONDS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009

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 result from providing services and producing and delivering goods in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to customers for boating services. The Port also recognizes land and building lease revenue as operating revenue. Operating expenses for the district include general operations, maintenance, general and administrative, and depreciation and amortization. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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, 2009, the treasurer was holding \$6,090,605 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.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during 2009 were approximately \$290,995.

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 consists of property taxes and related interest and penalties (See Note 3). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

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

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 \$48,116 at December 31, 2009.

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. 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	\$ 447,467
Restricted Non-Current Assets, Investments – Bond Reserve Account	800,900
Total Restricted Assets	<u>\$1,248,367</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 \$888,838 at December 31, 2009.

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

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. Accrued Expenses

These accounts consist of accrued leasehold, payroll, sales, and business taxes, employee withholdings, 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 of December 31, 2009, the Port had the following investment:

Certificate of deposit	Matures June 28, 2010	<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 equally over all twelve months. 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 2009 was approximately \$0.087 per \$1,000 on an assessed valuation of \$4,598,622,213 for a total regular tax levy of \$400,000. In 2008, the regular tax levy was \$400,000.

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, 2009, was as follows:

	Beginning			Ending
	Balance			Balance
	<u>1/1/2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2009</u>
Capital assets, not being depreciated				
Land	\$ 4,323,675	\$ -	\$ -	\$ 4,323,675
Construction in progress	245,550	213,006	323,765	134,791
<b>Total capital assets, not being depreciated</b>	<u>4,569,225</u>	<u>213,006</u>	<u>323,765</u>	<u>4,458,466</u>
Capital assets, being depreciated				
Buildings	14,764,260	3,114	-	14,767,374
Marina and other improvements	35,309,406	134,108	-	35,443,514
Machinery and equipment	968,982	75,946	-	1,044,928
<b>Total capital assets being depreciated</b>	<u>51,042,648</u>	<u>213,168</u>	<u>-</u>	<u>51,255,816</u>
Less accumulated depreciation for				
Buildings	2,506,884	554,311	-	3,061,195
Marina and other improvements	13,200,825	1,002,058	-	14,202,883
Machinery and equipment	544,544	73,288	-	617,832
<b>Total accumulated depreciation</b>	<u>16,252,253</u>	<u>\$ 1,629,657</u>	<u>\$ -</u>	<u>17,881,910</u>
<b>Total capital assets, being depreciated, net</b>	<u>\$ 34,790,395</u>			<u>\$ 33,373,906</u>

C. Construction Commitments

The Port has active construction projects as of December 31, 2009. The projects and the Port's commitments with contractors are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Anthony's Reroof	\$ 106,649	\$ 103,232
North Lot Landscaping	28,142	2,148
	<u>\$ 134,791</u>	<u>\$ 105,380</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; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov). The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

**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. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 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 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 (AFC) 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.) This annual benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired for 20 years, or who have 20 years of service and have been retired for 25 years. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living (COLA) is granted at age 66 based upon years of service times the COLA amount, which is increased by 3 percent annually. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS 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, 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 members who retire 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 (based on the 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. PERS Plan 3 members who retire 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 1,192 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2008:

Retirees and Beneficiaries Receiving Benefits	73,122
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	27,267
Active Plan Members Vested	105,212
Active Plan Members Non-Vested	56,456
Total	262,057

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. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. 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, 2009 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	5.31%**	5.31%**	5.31%***
Employee	6.00%****	3.90%****	*****

- \* The employer rates include the employer administrative expense fee currently set at 0.16%.
- \*\* The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% 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 3.90% 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
2009	\$ 25,382	\$ 69,002	\$ 5,764
2008	\$ 22,848	\$ 67,994	\$ 2,948
2007	\$ 17,495	\$ 49,222	\$ 2,292

NOTE 7 – RISK MANAGEMENT

The Port of Edmonds is a member of Enduris. Chapter 48.62 RCW 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 to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. Enduris 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. As of August 31, 2009, there were 444 Enduris members representing a broad range of special purpose districts.

Enduris 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. Enduris 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. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires insurance from unrelated insurance companies that are subject to a “per occurrence:”

- \$750,000 deductible on liability loss – the member is responsible for the first \$5,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$745,000 on liability loss.
- \$100,000 deductible on property loss – from January 1, 2009 to June 30, 2009, the member was responsible for the first \$5,000 of the deductible amount of each claim, while Enduris was responsible for the remaining \$95,000 on property loss. Enduris was not responsible for any deductible on boiler and machinery loss.
- \$250,000 deductible on property loss – from July 1, 2009 to August 31, 2010, the member is responsible for the first \$5,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$245,000 on property loss. Enduris is not responsible for any deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris 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 Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported, and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris, and are administered in house.

A Board of Directors consisting of 7 board members governs Enduris. Board members serve a specific term, and are elected by the Enduris member participants. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

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	2009 Installment
Refund 1997 G.O. Bonds	2017	3.00-4.10%	\$ 3,925,000	\$ 65,000

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
2010	70,000	148,339
2011	65,000	145,936
2012	70,000	143,445
2013	645,000	129,233
2014	675,000	102,833
2015-2017	2,205,000	137,164
Total	\$ 3,730,000	\$ 806,948

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, 2009, the Port's assessed value and limitation of unvoted general obligation debt are as follows:

Total Taxable Property Value	\$ 4,092,726,264
General Purpose Indebtedness Available Without a Vote	10,231,816
Indebtedness Incurred	4,221,890
Margin of Indebtedness Available Without a Vote	<u>\$ 6,009,926</u>

The revenue bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	2009 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	\$ 675,000
Acquisition of Harbor Square buildings	2016	7.38%	\$ 10,000,000	\$ 249,885

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
2010	700,000	168,903	269,266	616,302
2011	730,000	137,403	290,119	595,448
2012	760,000	103,823	310,907	574,661
2013	260,000	68,483	336,666	548,902
2014	275,000	56,263	362,739	522,829
2015-2017	900,000	129,600	6,789,190	653,500
Total	\$ 3,625,000	\$ 664,473	\$ 8,358,887	\$ 3,511,642

The Port's revenue bonds require the Port to maintain a 1.35 coverage requirement. The Port's debt service coverage ratio was 2.06 for December 31, 2009.

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, 2009, the Port had \$1,248,367 available in sinking funds and reserves as required by bond indentures.

The Port has pledged future marina operations and property lease revenue other than Harbor Square Property revenue, net of normal costs of maintenance and operation of the facilities of the Port and normal costs of administration of the business of the Port not paid from general tax levies but before depreciation, to repay \$8,590,000 in Revenue and Refunding Bonds issued in January 1998. Proceeds from the bonds provided financing for refunding the Port's 1992 Revenue Bonds, marina reconstruction, a bulkhead/promenade project, construction of a new dry stack storage facility, and other projects listed in the Port's 1998 Capital Budget. The bonds are payable solely from marina operations and property lease revenue other than Harbor Square Property revenue and are payable through 2017. Annual principal and interest payments on the bonds are expected to require less than 17% of net revenues. The total principal and interest remaining to be paid on the bonds is \$4,289,473. Principal and interest paid for the current year were \$873,940. Pledged revenues were \$1,803,713.

The Port has pledged future Harbor Square Property revenue and net revenues of the Port available after satisfying all requirements set forth in the 1998 Revenue and Refunding Bond agreement, to repay \$10,000,000 in Special Revenue Bonds issued in March 2006. Proceeds from the bonds provided financing for purchasing the Harbor Square buildings and leasehold interest in the Harbor Square Property. The bonds are payable from Harbor Square revenue and net revenues of the Port available after satisfying all requirements set forth in the 1998 Revenue and Refunding Bond agreement, and are payable through 2016. Annual principal and interest payments on the bonds are expected to require less than 60% of Harbor Square Property revenues. The total principal and interest remaining to be paid on the bonds is \$11,870,529. Principal and interest paid for the current year were \$885,568. Pledged Harbor Square revenues were \$1,458,165.

B. 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 \$7,226 for the year ended December 31, 2009. There are no future minimum lease payments for these leases.

C. Changes in Long-Term Liabilities

During the year ended December 31, 2009, the following changes occurred in long-term liabilities:

	Beginning Balance <u>1/1/2009</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>12/31/2009</u>	Due Within <u>One Year</u>
Bonds Payable:					
G.O. and Refunding Bonds	\$ 3,795,000	\$ -	\$ 65,000	\$ 3,730,000	\$ 70,000
Revenue & Refunding Bonds	12,908,772	-	924,885	11,983,887	969,266
Less Deferred Amounts:					
For issuance costs	87,066	-	20,397	66,669	
Add Deferred Amounts:					
For bond premiums	9,310	-	1,377	7,932	
Total bonds payable	16,626,016	-	970,865	15,655,150	1,039,266
Compensated absences	83,215	154,491	161,209	76,497	
Other post employment benefits	-	87,345	-	87,345	
Environmental remediation liability	612,500	-	-	612,500	
Total Long-Term Liabilities	\$17,321,731	\$ 241,836	\$1,132,074	\$16,431,492	\$1,039,266

## 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.

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 a "pass through" claim 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) together with the unpaid contract balance in the amount of \$25,000.00, as well as an "equitable adjustment" in the approximate amount of \$1,200,000.00 for the cost of re-performing the work in 2006. (The claim is a "pass through" claim because Triton, as the general contractor, 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 incurred by Blackwater.) The Port has denied responsibility for any such damages, has asserted that the claims are not supported by Blackwater's actual costs, and has asserted back-charge claims against Triton for failure to complete punch-list work.

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.

The trial is expected to start in June 2010.

#### NOTE 10 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

In June 2004, the Governmental Accounting Standards Board issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The requirements of this Statement are effective in three phases. The Port of Edmonds is a phase 3 government, and was required to adopt this Statement for fiscal periods beginning after December 15, 2008. The Port adopted this standard in 2009.

As per the GASB Statement No. 49 Summary, “In addition to pensions, many state and local governmental employers provide other postemployment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. This Statement establishes standards for the measurement, recognition, and display of OPEB expenses/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.”

##### A. Plan Description

The Port of Edmonds provides medical, dental, life, and long-term disability insurance to its employees and Commissioners through the Washington State Public Employees Benefit Board (PEBB). Port employees who end public employment are eligible to continue PEBB insurance coverage as a retiree if they retire under the public employees’ retirement system and are vested in that system.

##### B. Funding Policy

Retirees pay their medical premiums directly to the PEBB. As the PEBB retiree premiums are lower than the PEBB employee premiums, the Port is subsidizing the retirees. The Port’s funding policy is based upon pay-as-you-go financing requirements.

##### C. Annual OPEB Cost and Net OPEB Obligation

The Port’s annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2009. The following table shows the components of the Port’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Port’s net OPEB. The net OPEB obligation of \$87,345 is included as a noncurrent liability in the Statement of Net Assets.

	Fiscal Year Ending <u>12/31/2009</u>
<b>Determination of Annual Required Contribution:</b>	
Normal Cost at Year End	\$ 52,007
Amortization of Unfunded Actuarial Accrued Liability	41,030
Annual Required Contribution	<u>\$ 93,037</u>
<b>Determination of Annual OPEB Cost:</b>	
Annual Required Contribution	\$ 93,037
Net OPEB Obligation Interest	-
Net OPEB Obligation Amortization	-
Annual OPEB Cost	<u>\$ 93,037</u>
<b>Determination of Net OPEB Obligation:</b>	
Starting Net OPEB Obligation	\$ -
Annual Required Contribution	93,037
Contributions	5,692
Net OPEB Obligation	<u>\$ 87,345</u>

The Port's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2009 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Contribution as a Percentage of OPEB Cost</u>	<u>Net OPEB Obligation</u>
12/31/2009	\$ 93,037	6.12%	\$ 87,345

D. Funded Status and Funding Progress

As of December 31, 2009, the plan was 0% funded.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents current year information. As information is added in future years, the schedule of funding progress will present multi-year trend information that will show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

#### E. Actuarial Methods and Assumptions

The Port used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 62.20 was assumed for all active members to determine the Actuarial Accrued Liability and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the PERS 2 rates used in the June 30, 2007 actuarial valuation report issued by the Office of the State Actuary. Healthcare costs and trends were determined by Mercer and used by the Office of the State Actuary in the state-wide PEBB study performed in 2008. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the Actuarial Accrued Liability was Projected Unit Credit. The Actuarial Accrued Liability and the Net OPEB Obligations are amortized on an open basis as a level dollar over thirty years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

#### NOTE 11 – 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.

In November 2006, the Governmental Accounting Standards Board issued GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2007. The Port adopted this standard in 2008.

GASB Statement No. 49 requires disclosure of "obligations to address current or potential detrimental effects of existing pollution by participating in pollution remediation activities." GASB Statement No. 49 identifies five "obligating events" that require a government agency to disclose future outlays associated with remediation of contaminated sites. Once any of the five obligating events occurs, the government agency must document the components of expected pollution remediation outlays that are reasonably estimable. At this time, the Port has determined that future cleanup costs associated with one site constitute the Port's pollution remediation obligations.

#### A. Nature and Source of Pollution Remediation Obligations

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, and commenced cleanup activities.

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.

B. Amount of Estimated Liability

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. 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 \$612,500.

The Governmental Accounting Standards Board implemented new standards for recording pollution remediation obligations for financial periods beginning after December 15, 2007. The Port increased its liability from \$175,000 in 2007 to \$612,500 in 2008 in accordance with these standards.

As per GASB Statement No. 49, "Estimates of a pollution remediation liability should be adjusted when benchmarks are met or when new information indicates changes in estimated outlays due to, for example, changes in the remediation plan or operating conditions. These changes may include the type of equipment, facilities, and services that will be used, price increases or reductions for specific outlay elements such as ongoing monitoring requirements, changes in technology, and changes in legal or regulatory requirements."

The Port did not meet any benchmarks or receive new information that indicates changes in estimated outlays in 2009. Therefore, the Port did not make any adjustments to Environmental Remediation Liability in 2009.

C. Methods and Assumptions Used for the Estimate

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 Port has chosen to use only the best case and worse case for the ranges of potential outcomes. As the Port does not have a reasonable basis for specifying the probability and amount of a most likely potential cash flow, it is using only two data points, a range of \$175,000 to \$1,050,000.

D. Potential for Changes

As Phase III remediation may only be completed when the Harbor Square property is redeveloped, this estimate may be revised due to price increases or reductions, technology, and applicable laws or regulations.

E. Estimated Recoveries Reducing the Liability

The Port does not expect to receive any recoveries to reduce this liability.

NOTE 12 – 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. Prior Period Adjustments

Capital projects in the amount of \$117,768 were abandoned in previous years but were not expensed at the time the project was abandoned.

Property lease revenue of \$4,414 was not recorded in 2008.

C. Special Items

On December 3, 2007, one of the Port's buildings was damaged by flooding. Total damage was approximately \$146,000. In 2008, the Port paid for repairs of \$64,223, received FEMA reimbursements of \$79,525, and insurance reimbursements of \$45,848. The Port received the final FEMA reimbursement of \$8,802 in 2009.

PORT OF EDMONDS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008

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 result from providing services and producing and delivering goods in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to customers for boating services. The Port also recognizes land and building lease revenue as operating revenue. Operating expenses for the district include general operations, maintenance, general and administrative, and depreciation and amortization. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Port has elected to follow subsequent private-sector guidance.

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, 2008, the treasurer was holding \$5,289,544 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.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during 2008 were approximately \$118,200.

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 consists of property taxes and related interest and penalties (See Note 3). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

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

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 \$23,046 at December 31, 2008.

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. 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	\$ 447,159
Restricted Non-Current Assets, Investments – Bond Reserve Account	800,900
Total Restricted Assets	<u>\$1,248,059</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 \$825,347 at December 31, 2008.

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. Accrued Expenses

These accounts consist of accrued leasehold, payroll, sales, and business taxes, employee withholdings, 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 of December 31, 2008, the Port had the following investment:

Certificate of deposit	Matures June 7, 2009	<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 equally over all twelve months. 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 2008 was approximately \$0.088 per \$1,000 on an assessed valuation of \$4,546,305,554 for a total regular tax levy of \$400,000. In 2007, the regular tax levy was \$350,000.

### 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, 2008, was as follows:

	Beginning			Ending
	Balance			Balance
	<u>1/1/2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2008</u>
Capital assets, not being depreciated				
Land	\$ 4,323,675	\$ -	\$ -	\$ 4,323,675
Construction in progress	208,710	100,547	63,707	245,550
<b>Total capital assets, not being depreciated</b>	<b>4,532,385</b>	<b>100,547</b>	<b>63,707</b>	<b>4,569,225</b>
Capital assets, being depreciated				
Buildings	14,755,770	108,443	99,952	14,764,260
Marina and other improvements	34,755,585	570,269	16,448	35,309,406
Machinery and equipment	1,385,465	28,947	445,430	968,982
<b>Total capital assets being depreciated</b>	<b>50,896,820</b>	<b>707,658</b>	<b>561,830</b>	<b>51,042,648</b>
Less accumulated depreciation for				
Buildings	1,997,025	563,920	54,061	2,506,884
Marina and other improvements	11,760,664	1,459,462	19,301	13,200,825
Machinery and equipment	910,999	67,688	434,143	544,544
<b>Total accumulated depreciation</b>	<b>14,668,688</b>	<b>\$ 2,091,071</b>	<b>\$ 507,505</b>	<b>16,252,253</b>
<b>Total capital assets, being depreciated, net</b>	<b><u>\$ 36,228,132</u></b>			<b><u>\$ 34,790,394</u></b>

C. Construction Commitments

The Port has active construction projects as of December 31, 2008. 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	\$ 11,927	\$ -
M/N Dock Gangway Replacement	33,786	-
Maintenance Building	6,914	-
North Boardwalk	22,019	-
Northeast Parking Lot	98,928	-
North Lot Landscaping	463	-
Restroom Project	71,513	-
	<u>\$ 245,550</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* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

**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. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

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 (AFC) 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 members who retire 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 that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS 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, 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 (based on the 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. Plan members who retire 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 1,190 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2007:

Retirees and Beneficiaries Receiving Benefits	71,244
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	26,583
Active Plan Members Vested	105,447
Active Plan Members Non-Vested	52,575
Total	255,849

### 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. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. 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, 2008 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	8.31%**	8.31%**	8.31%***
Employee	6.00%****	5.45%****	*****

- \* The employer rates include the employer administrative expense fee currently set at 0.16%.
- \*\* The employer rate for state elected officials is 12.39% for Plan 1 and 8.31% 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 5.45% 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, 2008 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2008	\$ 22,848	\$ 67,994	\$ 2,948
2007	\$ 17,495	\$ 49,222	\$ 2,292
2006	\$ 8,145	\$ 22,109	\$ 971

#### NOTE 7 – RISK MANAGEMENT

The Port of Edmonds is a member of Enduris. 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 to the same extent that they may individually purchase insurance, self-insure, or hire to contract 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. Enduris 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. As of August 31, 2008, there were 427 Enduris members representing a broad range of special purpose districts.

Enduris 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. Enduris 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. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires insurance from unrelated insurance companies 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 Enduris is responsible for the remaining \$495,000 on liability losses. The member is responsible for the first \$5,000 on property loss, while Enduris is responsible for the remaining \$95,000 on property losses. Enduris 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 Enduris 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 (Master Agreement) is automatically renewed after the initial one full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported, and in-process claims for the period they were a signatory to the Intergovernmental Contract.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris, and are administered in house.

A Board of Directors consisting of 7 board members governs Enduris. Board members serve a specific term, and are elected by the Enduris member participants. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

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	2008 Installment
Refund 1997 G.O. Bonds	2017	3.25-4.10%	\$ 3,925,000	\$ 65,000

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
2009	65,000	150,620
2010	70,000	148,339
2011	65,000	145,936
2012	70,000	143,445
2013	645,000	129,233
2014-2017	2,880,000	239,996
Total	\$ 3,795,000	\$ 957,568

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, 2008, the Port's assessed value and limitation of unvoted general obligation debt are as follows:

Total Taxable Property Value	\$ 4,598,622,213
General Purpose Indebtedness Available Without a Vote	11,496,556
Indebtedness Incurred	4,254,923
Margin of Indebtedness Available Without a Vote	<u>\$ 7,241,633</u>

The revenue bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	2008 Installment
Refund of 1992 revenue bonds and capital projects including marina reconstruction, bulkhead/promenade project, a new dry stack storage facility	2017	4.45% - 4.80%	\$ 8,590,000	\$ 650,000
Acquisition of Harbor Square buildings	2016	7.38%	\$ 10,000,000	\$ 1,152,072

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
2009	675,000	198,940	249,912	635,656
2010	700,000	168,903	269,266	616,302
2011	730,000	137,403	290,119	595,448
2012	760,000	103,823	310,907	574,661
2013	260,000	68,483	336,666	548,902
2014-2017	1,175,000	185,863	7,151,903	1,176,329
Total	\$ 4,300,000	\$ 863,413	\$ 8,608,772	\$ 4,147,298

The Port's revenue bonds require the Port to maintain a 1.35 coverage requirement. The Port's debt service coverage ratio was 1.97 for December 31, 2008.

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, 2008, the Port had \$1,248,058 available in sinking funds and reserves as required by bond indentures.

The Port has pledged future marina operations and property lease revenue other than Harbor Square Property revenue, net of normal costs of maintenance and operation of the Facilities of the Port and normal costs of administration of the business of the Port not paid from general tax levies but before depreciation, to repay \$8,590,000 in Revenue and Refunding Bonds issued in January 1998. Proceeds from the bonds provided financing for refunding the Port's 1992 Revenue Bonds, marina reconstruction, a bulkhead/promenade project, construction of a new dry stack storage facility, and other projects listed in the Port's 1998 Capital Budget. The bonds are payable solely from marina operations and property lease revenue other than Harbor Square Property revenue and are payable through 2017. Annual principal and interest payments on the bonds are expected to require less than 51% of net revenues. The total principal and interest remaining to be paid on the bonds is \$5,163,413. Principal and interest paid for the current year were \$877,215. Pledged revenues were \$1,728,291.

The Port has pledged future Harbor Square Property revenue and net revenues of the Port available after satisfying all requirements set forth in the 1998 Revenue and Refunding Bond agreement, to repay \$10,000,000 in Special Revenue Bonds issued in March 2006. Proceeds from the bonds provided financing for purchasing the Harbor Square buildings and leasehold interest in the Harbor Square Property. The bonds are payable from Harbor Square revenue and net revenues of the Port available after satisfying all requirements set forth in the 1998 Revenue and Refunding Bond agreement, and are payable through 2016. Annual principal and interest payments on the bonds are expected to require less than 59% of Harbor Square Property revenues. The total principal and interest remaining to be paid on the bonds is \$12,756,070.

Principal and interest paid for the current year were \$1,858,684. Pledged revenues were \$1,495,401.

**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. There are no total refunded bonds outstanding.

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 \$7,151 for the year ended December 31, 2008. There are no future minimum lease payments for these leases.

**D. Changes in Long-Term Liabilities**

During the year ended December 31, 2008, the following changes occurred in long-term liabilities:

	Beginning Balance <u>1/1/2008</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>12/31/2008</u>	Due Within <u>One Year</u>
Bonds Payable:					
G.O. and Refunding Bonds	\$ 3,860,000	\$ -	\$ 65,000	\$ 3,795,000	\$ 65,000
Revenue & Refunding Bonds	14,710,844	-	1,802,072	12,908,772	924,912
Less Deferred Amounts:					
For issuance costs	110,546	-	23,480	87,066	
Add Deferred Amounts:					
For bond premiums	10,711	-	1,401	9,310	
Total bonds payable	18,471,009	-	1,844,993	16,626,016	989,912
Compensated absences	81,643	138,871	137,299	83,215	
Environmental remediation liability	175,000	437,500	-	612,500	
Total Long-Term Liabilities	\$18,727,652	\$ 576,371	\$1,982,292	\$17,321,731	\$ 989,912

## 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.

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.

The Port expects to incur expenses to defend itself. At this time, the amount of those costs is not estimable.

## 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.

### A. Nature and Source of Pollution Remediation Obligations

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, and commenced cleanup activities.

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.

### B. Amount of Estimated Liability

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. 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 \$612,500.

The Governmental Accounting Standards Board implemented new standards for recording pollution remediation obligations for financial periods beginning after December 15, 2007. The Port increased its liability from \$175,000 in 2007 to \$612,500 in 2008 in accordance with these standards.

C. Methods and Assumptions Used for the Estimate

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 Port has chosen to use only the best case and worse case for the ranges of potential outcomes. As the Port does not have a reasonable basis for specifying the probability and amount of a most likely potential cash flow, it is using only two data points, a range of \$175,000 to \$1,050,000.

D. Potential for Changes

As Phase III remediation may only be completed when the Harbor Square property is redeveloped, this estimate may be revised due to price increases or reductions, technology, and applicable laws or regulations.

E. Estimated Recoveries Reducing the Liability

The Port does not expect to receive any recoveries to reduce this liability.

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. Prior Period Adjustments

The Port of Edmonds was audited by the Washington State Department of Revenue in August 2006, and was assessed additional taxes and interest of \$33,062. The Port recorded this amount as a liability and expense in 2006, and filed an appeal in February 2007. In February 2008, the Port received notification that a portion of its appeal was granted and the Port only owed \$4,852. The Port recorded a prior period adjustment of \$28,210 in 2008 to reflect the change in liability and expenses from prior years.

C. Change in Accounting Principles

In 2008, the Port implemented GASB Statement No. 49, which requires government entities to record their pollution remediation obligations using the expected cash flow technique. See Note 10 for further information.

D. Special Items

In 2008, the Port of Edmonds received grant funding of \$20,621 from Snohomish County Public Utilities District for replacing its lights and ballasts with energy efficient models.

On December 3, 2007, one of the Port's buildings was damaged by flooding. Total damage was approximately \$146,000. In 2008, the Port paid for repairs of \$64,223, received FEMA reimbursements of \$79,525, and insurance reimbursements of \$45,848.

PORT OF EDMONDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 OTHER POSTEMPLOYMENT BENEFITS  
 SCHEDULE OF FUNDING PROGRESS

<u>Fiscal Year Ended</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liabilities</u>	<u>Unfunded Actuarial Accrued Liabilities (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL As A Percentage of Covered Payroll</u>
December 31, 2009	\$ -	\$ 668,333	\$ 668,333	0.00%	\$ 1,368,184	48.85%



## **ABOUT THE STATE AUDITOR'S OFFICE**

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The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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**Deputy Chief of Staff**  
**Chief Policy Advisor**  
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**Ted Rutt**  
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**Chuck Pfeil, CPA**  
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