Washington State Auditor's Office

Financial Statements Audit Report

Port of Edmonds

Snohomish County

Audit Period

January 1, 2010 through December 31, 2011

Report No. 1009123

Issue Date

February 11, 2013

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

February 11, 2013

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,

TROY KELLEY
STATE AUDITOR

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Snohomish County
January 1, 2010 through December 31, 2011

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Snohomish County
January 1, 2010 through December 31, 2011

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, 2011 and 2010, and have issued our report thereon dated November 1, 2012.

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.

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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

November 1, 2012

Independent Auditor's Report on Financial Statements

Port of Edmonds
Snohomish County
January 1, 2010 through December 31, 2011

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, 2011 and 2010, 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, 2011 and 2010, and the changes in financial position and the cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 20 and information on postemployment benefits other than pensions on pages 74 through 75 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

November 1, 2012

Financial Section

Port of Edmonds
Snohomish County
January 1, 2010 through December 31, 2011

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

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, 2011. 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 230 spaces, two public boat launches, a boatyard, 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 $67,394, or 1% over 2010. The increase is primarily due to increases in marina operations revenue. The Port's non-operating revenues increased by $6,236, or 1.4% over 2010. This increase is primarily due to reimbursements the Port received for damage done to Port property.

The Port's overall operating expenses decreased by $102,020 in 2011, or 1.7% less than 2010 operating expense levels. The Port's non-operating expenses decreased by $107,616, or 11% less than 2010 non-operating expense levels.

The Port's overall operating income was $1,085,738 in 2011, as compared to $916,324 in 2010.

The Port's net assets increased by $478,290 in 2011.

The Port's assets exceeded its liabilities by $28,932,628 (net assets) as of December 31, 2011.

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 may collect property tax revenues from the property owners within the Port district. These tax revenues may 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 may 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 (also 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 Fund Net Assets is also included.

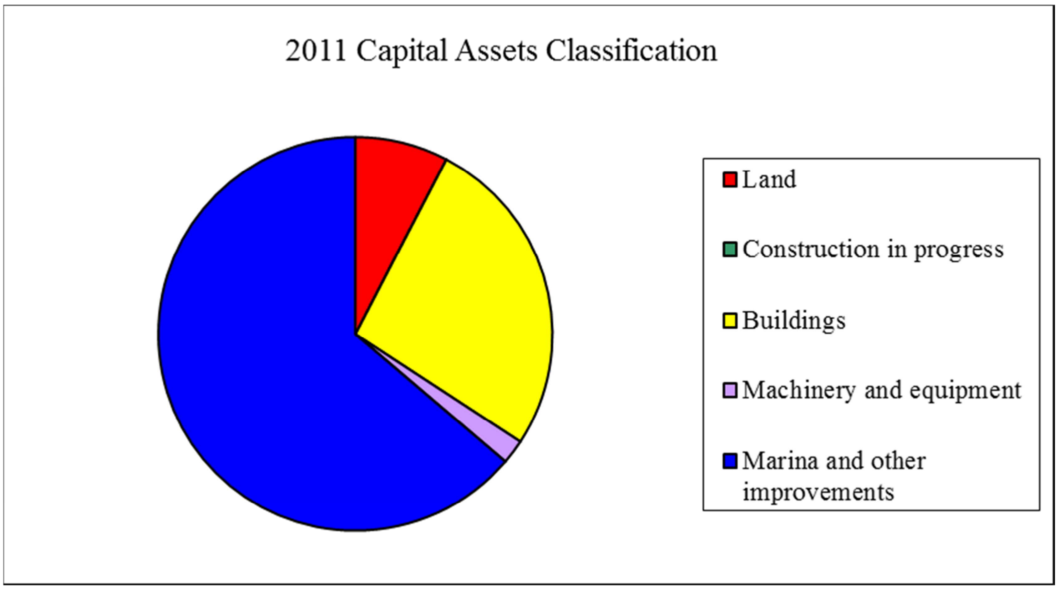
The notes to the financial statements provide additional information that may not be readily apparent from the actual financial statements. The notes to the financial statements can be found immediately following the financial statements.

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. In 2011, the Port's Net Assets increased by $478,290 or 1.7%, which shows that the Port of Edmonds performed slightly better in 2011 than in 2010. Cash flows show if the Port is spending more money than it received. In 2011, the Port of Edmonds received $879,420 more than it spent. Overall, the Port is in a better financial position than it was in 2010.

FINANCIAL ANALYSIS – STATEMENT OF NET ASSETS

Summary of Statement of Net Assets				
	2011	2010	Increase (Decrease)	% Change
Current Assets	$ 7,877,398	$ 6,935,086	$ 942,312	13.59%
Restricted Assets	801,888	800,900	988	0.12%
Capital Assets	35,609,626	36,895,956	(1,286,330)	-3.49%
Other Noncurrent Assets	103,650	150,087	(46,437)	-30.94%
Total Assets	44,392,562	44,782,029	(389,467)	-0.87%
Current Liabilities	1,999,029	1,914,018	85,011	4.44%
Noncurrent Liabilities	13,460,905	14,413,673	(952,768)	-6.61%
Total Liabilities	15,459,934	16,327,691	(867,757)	-5.31%
Invested in Capital Assets, Net of Related Debt	22,100,686	22,264,199	(163,513)	-0.73%
Unrestricted	6,831,942	6,190,139	641,803	10.37%
Total Net Assets	28,932,628	28,454,338	478,290	1.68%
Total Liabilities and Net Assets	$ 44,392,562	$ 44,782,029	$ (389,467)	-0.87%

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2011, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port's Total Net Assets increased by $478,290, or 1.7% in 2011, for a total of $28,932,628. Of this amount $22,100,686 reflects the Port's investment in capital assets, net of debt.



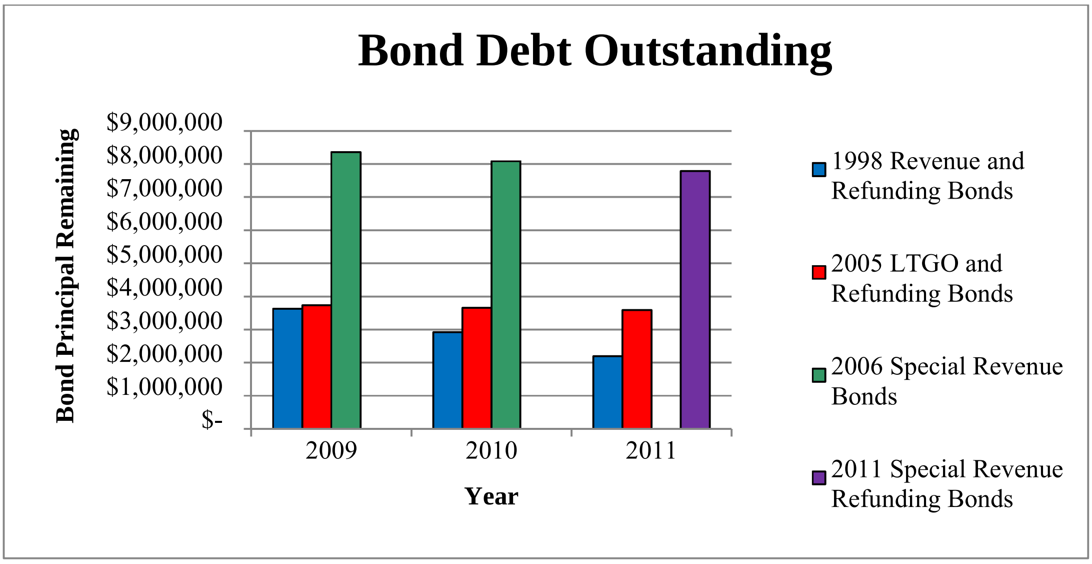
Capital Asset	2011	2010
Land	$ 4,323,675	$ 4,323,675
Construction in progress	-	14,618
Buildings	15,023,437	14,980,128
Machinery and equipment	1,140,204	1,254,788
Marina and other improvements	36,071,717	35,797,323
	$ 56,559,033	$ 56,370,532

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, Net of Related Debt" 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 $35,609,626 as of December 31, 2011. The book value of the assets decreased by $1,286,330 in 2011 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.

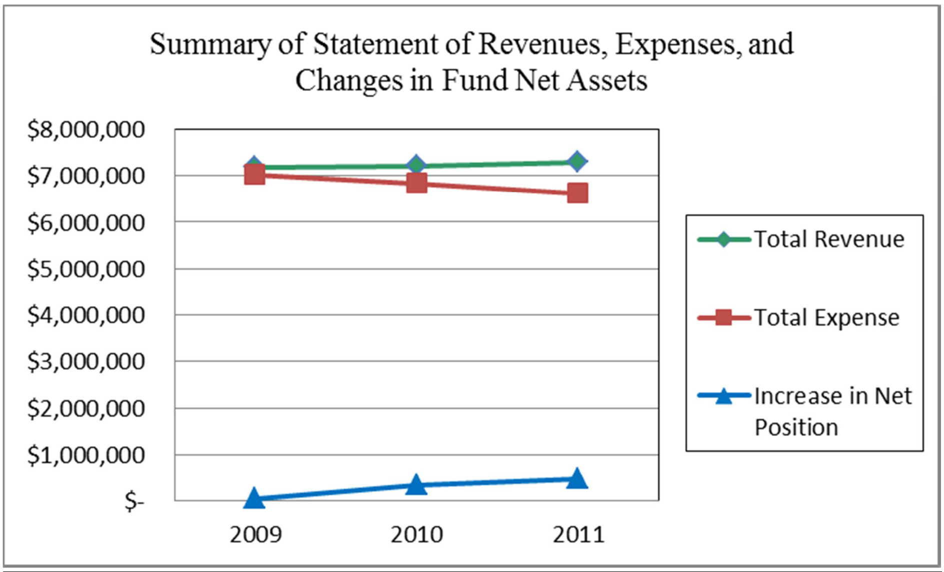
The Port's current liabilities as of December 31, 2011 are debts that the Port will repay in 2012. The total current liabilities increased by $85,011 in 2011. Current liabilities include payments for expenses already incurred, accrued interest on the Port's bonds, customer deposits, and the principal amount of the bond payments due in 2012.



Bond	2009	2010	2011
1998 Revenue and Refunding Bonds	$3,625,000	$2,925,000	$2,195,000
2005 LTGO and Refunding Bonds	$3,730,000	$3,660,000	$3,595,000
2006 Special Revenue Bonds	$8,358,887	$8,089,652	$ -
2011 Special Revenue Refunding Bonds	$ -	$ -	$7,798,434

The Port's long term liabilities decreased by $952,768 in 2011, as the Port made principal payments on its bonds. General Obligation bonds outstanding at December 31, 2011 were $3,595,000, a decrease of $65,000 from 2010. Revenue and Refunding bonds outstanding at December 31, 2011 were $9,993,434, a decrease of $1,021,218 from the previous 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 Statement of Revenues, Expenses, and Changes in Fund Net Assets				
	2011	2010	Increase (Decrease)	% Change
Marina Operations Revenues	$4,764,642	$4,682,932	$ 81,710	1.74%
Property/Lease Rental Operations Revenues	2,069,322	2,083,638	(14,316)	-0.69%
Nonoperating Revenues	456,140	449,904	6,236	1.39%
Total Revenues	7,290,104	7,216,474	73,630	1.02%
Operating Expenses	5,748,226	5,850,246	(102,020)	-1.74%
Nonoperating Expenses	879,738	987,354	(107,616)	-10.90%
Total Expenses	6,627,964	6,837,600	(209,636)	-3.07%
Capital Contributions	25,514	-	25,514	N/A
Extraordinary/Special Items	(224,859)	(54,921)	(169,938)	309.42%
Prior Period Adjustments	15,495	27,466	(11,971)	-43.58%
Increase/(Decrease) in Net Assets	$ 478,290	$ 351,419	$ 126,871	36.10%

While the Statement of Net Assets shows the change in net assets, the Statement of Revenues, Expenses, and Changes in Fund Net Assets provides answers as to the nature and source of these changes. The Port's total revenues increased by $73,630 in 2011. Operating revenues increased by $67,394 in 2011. Nonoperating revenues increased by $6,236 in 2011.

Total expenses decreased by $209,636 in 2011. Operating expenses decreased by $102,020 in 2011. Nonoperating expenses decreased by $107,616 in 2011.

Interest income decreased by $10,923 as a result of lower interest rates. Interest expense decreased by $105,665 as the Port paid down the principal on its bonds.

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 is one major program impact facing the Port that could result in material changes in its financial position in the long term.

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, 2010. 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 $77,607, or 1% over 2009. The increase is primarily due to a land lease for parking. The Port's non-operating revenues decreased by $45,927, or 9% from 2009. This decrease is primarily due to the decrease in interest income.

The Port's overall operating expenses decreased by $54,352 in 2010, or 1% less than 2009 operating expense levels. The Port's non-operating expenses decreased by $71,896, or 6% less than 2009 non-operating expense levels.

The Port's overall operating income was $916,324 in 2010, as compared to $784,365 in 2009.

The Port's net assets increased by $351,419 in 2010.

The Port's assets exceeded its liabilities by $28,454,338 (net assets) as of December 31, 2010.

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 (also 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. In 2010, the Port's Net Assets increased by $351,419 or 1%, which shows that the Port of Edmonds performed slightly better in 2010 than in 2009. Cash flows show if the Port is spending more money than it received. In 2010, the Port of Edmonds received $626,614 more than it spent. Overall, the Port is in a better financial position than it was in 2009.

FINANCIAL ANALYSIS – STATEMENT OF NET ASSETS

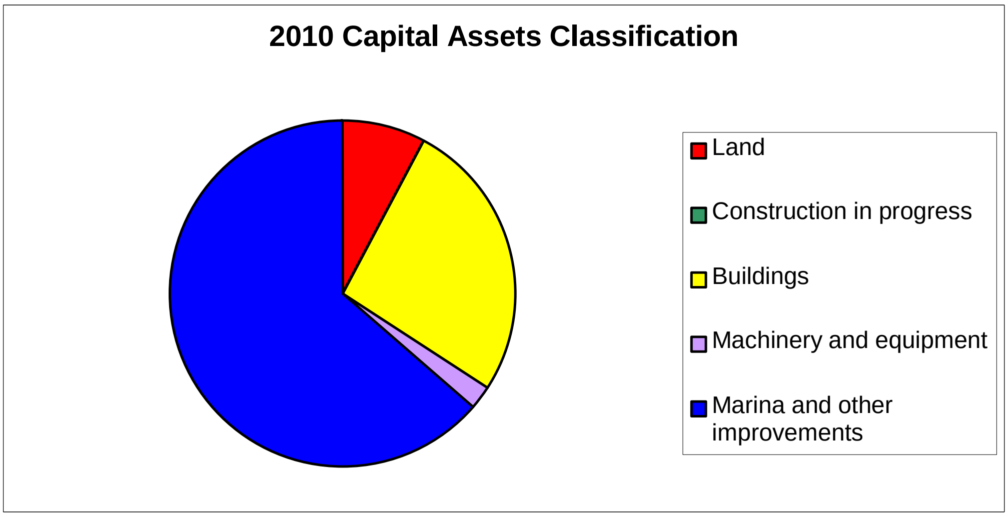
Summary of Assets, Liabilities, and Net Assets				
	2010	2009	Increase (Decrease)	% Change
Current Assets	$ 6,935,086	$ 6,551,011	$ 384,075	5.86%
Restricted Assets	800,900	800,900	-	0.00%
Capital Assets	36,895,956	37,832,372	(936,416)	-2.48%
Other Noncurrent Assets	150,087	260,893	(110,806)	-42.47%
Total Assets	44,782,029	45,445,176	(663,147)	-1.46%
Current Liabilities	1,914,018	1,950,031	(36,013)	-1.85%
Noncurrent Liabilities	14,413,673	15,392,226	(978,553)	-6.36%
Total Liabilities	16,327,691	17,342,257	(1,014,566)	-5.85%
Invested in Capital Assets, Net of Related Debt	22,264,199	22,177,222	86,977	0.39%
Unrestricted	6,190,139	5,925,697	264,442	4.46%
Total Net Assets	28,454,338	28,102,919	351,419	1.25%
Total Liabilities and Net Assets	$ 44,782,029	$ 45,445,176	$ (663,147)	-1.46%

This discussion of the Port's financial statements includes an analysis of major changes in the assets and liabilities for 2010, as well as reviewing changes in revenues and expenses reflected in the financial statements. The Port's Total Net Assets increased by $351,419, or 1% in 2010, for a total of $28,454,338. Of this amount $22,264,199 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 $36,895,956 as of December 31, 2010. The book value of the assets decreased by $936,416 in 2010 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.

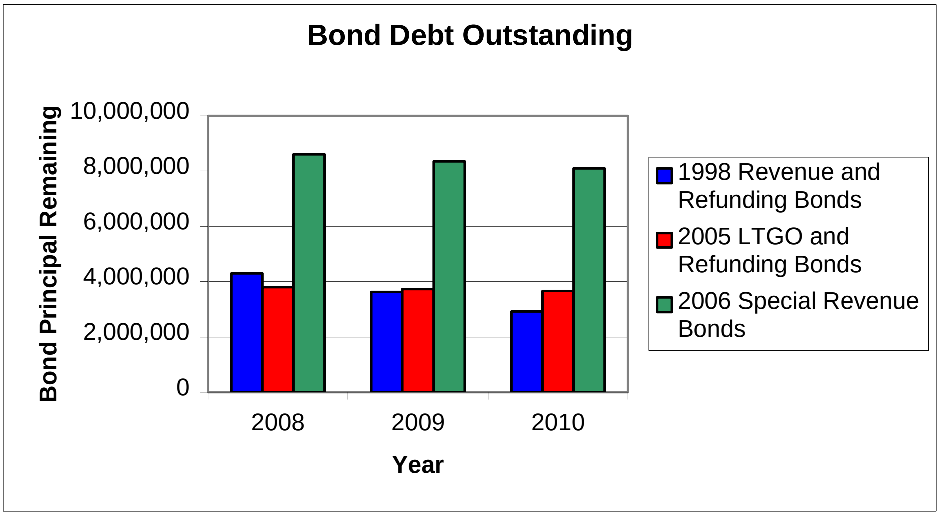
The Port's capital assets are classified into the following categories: land, construction in progress, buildings, marina and other improvements, and machinery and equipment. Marina and other improvements include assets such as docks, breakwaters, the dry stack facility, roads, and landscaping. Construction in progress does not show up well on this graph, as the ending balance of construction in progress is $14,618, while the next smallest asset category is machinery and equipment with a balance of $1,254,788. See Note 4 in the Notes to the Financial Statements for more information.



Capital Asset		2010		2009
Land	$	4,323,675	$	4,323,675
Construction in progress		14,618		134,791
Buildings		14,980,128		14,767,374
Machinery and equipment		1,254,788		1,044,928
Marina and other improvements		35,797,323		35,443,514
	$	56,370,532	$	55,714,282

The Port's current liabilities as of December 31, 2010 are debts that the Port will repay in 2011. The total current liabilities decreased by $36,013 in 2010. 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 2011.

The Port's long term liabilities decreased by $978,553 in 2010, as the Port made principal payments on its bonds. General Obligation bonds outstanding at December 31, 2010 were $3,660,000, a decrease of $70,000 from 2009. Revenue and Refunding bonds outstanding at December 31, 2010 were $11,014,652, a decrease of $969,235 from the previous year. See Note 8 in the Notes to the Financial Statements for more information.



Bond	2008	2009	2010
1998 Revenue and Refunding Bonds	4,300,000	3,625,000	2,925,000
2005 LTGO and Refunding Bonds	3,795,000	3,730,000	3,660,000
2006 Special Revenue Bonds	8,608,772	8,358,887	8,089,652

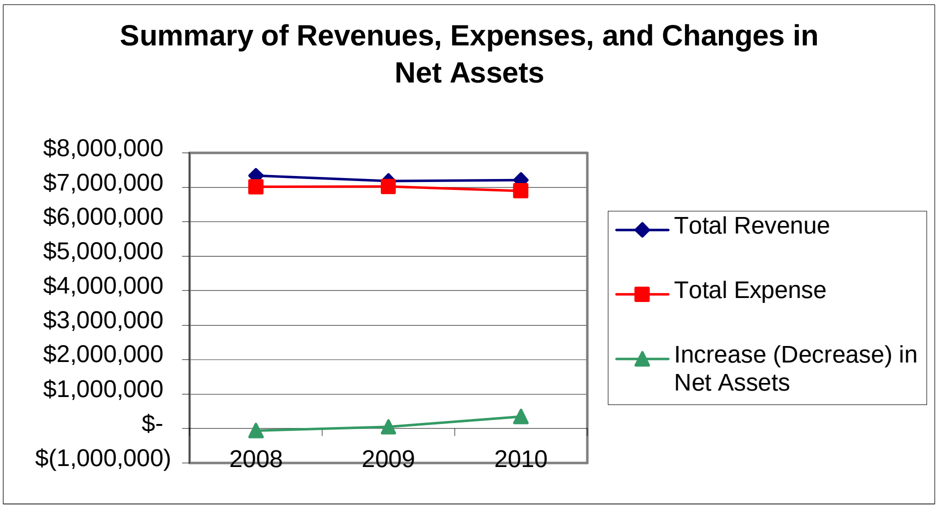
FINANCIAL ANALYSIS – REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Summary of Revenues, Expenses, and Changes in Fund Net Assets				
	2010	2009	Increase (Decrease)	% Change
Operating Revenues	$ 6,766,570	$ 6,688,963	$ 77,607	1.16%
Nonoperating Revenues	449,904	495,831	(45,927)	-9.26%
Total Revenues	7,216,474	7,184,794	31,680	0.44%
Operating Expenses	5,850,246	5,904,598	(54,352)	-0.92%
Nonoperating Expenses	1,042,275	1,114,171	(71,896)	-6.45%
Total Expenses	6,892,521	7,018,769	(126,248)	-1.80%
Capital Contributions	-	-	-	N/A
Prior Period Adjustments	27,466	(113,354)	140,820	N/A
Change in Accounting Principle	-	-	-	N/A
Increase/(Decrease) in Net Assets	$ 351,419	$ 52,671	$ 298,748	567.20%

While the Statement of Net Assets shows the change in net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes. The Port's total revenues increased by $31,680 in 2010. Operating revenues increased by $77,607 in 2010. Nonoperating revenues decreased by $45,927 in 2010.

Total expenses decreased by $126,248 in 2010. Operating expenses decreased by $54,352 in 2010. Nonoperating expenses decreased by $71,896 in 2010.

Interest income decreased by $36,109 as a result of lower interest rates. Interest expense decreased by $53,230 as the Port paid down the principal on its bonds.



Summary of Revenues, Expenses, and Changes in Net Assets			
	2008	2009	2010
Total Revenue	$ 7,336,640	$ 7,184,794	$ 7,216,474
Total Expense	7,010,505	7,018,769	6,892,521
Capital Contributions	20,621	-	-
Prior Period Adjustments	(409,290)	(113,354)	27,466
Increase (Decrease) in Net Assets	$ (62,534)	$ 52,671	$ 351,419

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 is one major program impact facing the Port that could result in material changes in its financial position in the long term.

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
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

ASSETS

CURRENT ASSETS	
Cash and cash equivalents (Notes 1 and 2)	$ 7,153,031
Restricted Assets	
Cash and cash equivalents (Notes 1 and 2)	443,608
Taxes receivable (Notes 1 and 3)	12,985
Accounts receivable (net of allowance for uncollectibles) (Note 1)	74,542
Inventory (Note 1)	78,847
Prepaid expenses	114,385
Total Current Assets	7,877,398
NONCURRENT ASSETS	
Restricted Assets	
Investments (Notes 1 and 2)	801,888
Capital Assets Not Being Depreciated (Note 4)	
Land	4,323,675
Construction in progress	-
Capital Assets Being Depreciated (Note 4)	
Buildings	15,023,437
Marina and other improvements	36,071,717
Machinery and equipment	1,140,204
Less: Accumulated depreciation	(20,949,407)
Total Net Capital Assets	35,609,626
Other Noncurrent Assets	
Deferred interest (Note 8)	103,650
Total Noncurrent Assets	36,515,164
TOTAL ASSETS	$ 44,392,562

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

LIABILITIES

CURRENT LIABILITIES	
Accounts payable	$ 261,939
Accrued expenses (Note 1)	294,126
Accrued interest payable (Note 8)	63,975
Customer deposits	387,852
Current portion of long-term obligations (Note 8)	991,137
Total Current Liabilities	1,999,029
NONCURRENT LIABILITIES	
General obligation bonds, net of current portion (Note 8)	3,510,023
Revenue bonds, net of current portion (Note 8)	9,007,780
Employee leave benefits (Note 1)	84,026
Other postemployment benefits (Note 10)	246,576
Environmental remediation liability (Note 11)	612,500
Total Noncurrent Liabilities	13,460,905
TOTAL LIABILITIES	15,459,934
NET ASSETS	
Invested in capital assets, net of related debt	22,100,686
Unrestricted	6,831,942
TOTAL NET ASSETS	28,932,628
TOTAL LIABILITIES AND NET ASSETS	$ 44,392,562

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

ASSETS

CURRENT ASSETS	
Cash and cash equivalents (Notes 1 and 2)	$ 6,283,116
Restricted Assets	
Cash and cash equivalents (Notes 1 and 2)	434,103
Accrued interest receivable (Note 1)	1,501
Taxes receivable (Notes 1 and 3)	9,760
Accounts receivable (net of allowance for uncollectibles) (Note 1)	25,522
Inventory (Note 1)	67,640
Prepaids	113,444
Total Current Assets	6,935,086
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	14,618
Capital Assets Being Depreciated (Note 4)	
Buildings	14,980,128
Marina and other improvements	35,797,323
Machinery and equipment	1,254,788
Less: Accumulated depreciation	(19,474,576)
Total Net Capital Assets	36,895,956
Other Noncurrent Assets	
Lease acquisition costs, net of accumulated amortization (Note 1)	-
Deferred interest (Note 8)	150,087
Total Other Noncurrent Assets	150,087
TOTAL ASSETS	$ 44,782,029

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

LIABILITIES

CURRENT LIABILITIES	
Accounts payable	$ 113,668
Accrued expenses (Note 1)	238,125
Accrued interest payable (Note 8)	80,961
Customer deposits	396,145
Current portion of long-term obligations (Note 8)	1,085,119
Total Current Liabilities	1,914,018
NONCURRENT LIABILITIES	
General obligation bonds, net of current portion (Note 8)	3,573,468
Revenue bonds, net of current portion (Note 8)	9,973,170
Employee leave benefits (Note 1)	77,503
Other postemployment benefits (Note 10)	177,032
Environmental remediation liability (Note 11)	612,500
Total Noncurrent Liabilities	14,413,673
TOTAL LIABILITIES	16,327,691
NET ASSETS	
Invested in capital assets, net of related debt	22,264,199
Unrestricted	6,190,139
TOTAL NET ASSETS	28,454,338
TOTAL LIABILITIES AND NET ASSETS	$ 44,782,029

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, 2011

OPERATING REVENUES (Note 1)	
Marina operations	$ 4,764,642
Property lease/rental operations	2,069,322
Total Operating Revenues	6,833,964
OPERATING EXPENSES (Note 1)	
General operations	2,871,344
Maintenance	331,719
General and administrative	909,834
Depreciation and amortization (Note 4)	1,635,329
Total Operating Expenses	5,748,226
Operating Income	1,085,738
NONOPERATING REVENUES (EXPENSES) (Note 1)	
Investment income	30,397
Taxes levied for general purposes (Note 3)	406,100
Grant proceeds	1,098
Gain on disposition of fixed assets	9,879
Interest expense (Note 8)	(857,927)
Bond issuance expenses (Notes 1 and 8)	(16,321)
Election expense	(5,490)
Total Nonoperating Revenues (Expenses)	(432,264)
Income before other revenues, expenses, gains, losses, and transfers	653,474
Capital contributions	25,514
Property damage reimbursements	8,666
Fire damage repair expenses (Note 12)	(224,859)
Increase in net assets	462,795
Net assets - beginning of period	28,454,338
Prior period adjustments (Note 12)	15,495
Net assets - end of period	$ 28,932,628

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, 2010

OPERATING REVENUES (Note 1)	
Marina operations	$ 4,682,932
Property lease/rental operations	2,083,638
Total Operating Revenues	6,766,570
OPERATING EXPENSES (Note 1)	
General operations	2,922,999
Maintenance	334,439
General and administrative	878,493
Depreciation and amortization (Note 4)	1,714,315
Total Operating Expenses	5,850,246
Operating Income	916,324
NONOPERATING REVENUES (EXPENSES) (Note 1)	
Investment income	41,320
Taxes levied for general purposes (Note 3)	408,584
Loss on disposition of fixed assets	(6,567)
Interest expense (Note 8)	(963,592)
Bond issuance expenses (Notes 1 and 8)	(17,195)
Election expense	-
Total Nonoperating Revenues (Expenses)	(537,450)
Income before other revenues, expenses, gains, losses, and transfers	378,874
Capital contributions	-
Settlement of Lawsuit (Note 9)	(54,921)
Increase in net assets	323,953
Net assets - beginning of period	28,102,919
Prior period adjustments (Note 12)	27,466
Net assets - end of period	$ 28,454,338

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers (Note 1)	$ 6,784,944
Payments to suppliers	(1,957,525)
Payments to employees	(2,096,181)
Net cash provided by operating activities	2,731,238
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from property taxes (Note 3)	402,875
Nonoperating receipts	9,764
Nonoperating expenses (Note 1)	(13,783)
Net cash provided by noncapital financing activities	398,856
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	25,514
Repayment of capital debt (Note 8)	(7,898,115)
Refinancing expenses (Note 8)	(51,591)
Proceeds from capital debt (Note 8)	7,898,115
Purchases and construction of capital assets (Note 4)	(339,486)
Principal paid on capital debt (Note 8)	(1,086,218)
Interest paid on capital debt (Note 8)	(829,804)
Net cash used by capital and related financing activities	(2,281,584)
CASH FLOWS FROM INVESTING ACTIVITIES	
Maturities of certificates of deposit (Note 2)	800,900
Purchases of certificates of deposit (Note 2)	(800,900)
Interest and dividends	30,910
Net cash provided by investing activities	30,910
Net increase in cash and cash equivalents	879,420
Balances - beginning of the year	6,717,219
Balances - end of the year (Note 1)	7,596,639
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	1,085,738
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization expense (Note 4)	1,635,329
Changes in assets and liabilities	
Receivables, net	(49,020)
Inventories	(11,207)
Prepaid expenses	(941)
Accounts and other payables	148,271
Accrued expenses	(76,932)
Net cash provided by operating activities	$ 2,731,238

See accompanying notes to the financial statements.

PORT OF EDMONDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers (Note 1)	$ 7,006,181
Payments to suppliers	(2,007,779)
Payments to employees	(2,072,946)
Net cash provided by operating activities	2,925,456
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from property taxes (Note 3)	408,902
Nonoperating receipts	(2,312)
Nonoperating expenses (Note 9)	(54,921)
Net cash provided by noncapital financing activities	351,669
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases and construction of capital assets (Note 4)	(720,986)
Principal paid on capital debt (Note 8)	(1,039,235)
Interest paid on capital debt (Note 8)	(933,574)
Net cash used by capital and related financing activities	(2,693,795)
CASH FLOWS FROM INVESTING ACTIVITIES	
Maturities of certificates of deposit (Note 2)	800,900
Purchases of certificates of deposit (Note 2)	(800,900)
Interest and dividends	43,284
Net cash provided by investing activities	43,284
Net increase in cash and cash equivalents	626,614
Balances - beginning of the year	6,090,605
Balances - end of the year (Note 1)	6,717,219
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	916,324
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization expense (Note 4)	1,714,315
Prior period adjustment (Note 12)	27,466
Changes in assets and liabilities	
Receivables, net	212,145
Inventories	(12,963)
Prepaid expenses	41,076
Accounts and other payables	(208,000)
Accrued expenses	235,093
Net cash provided by operating activities	$ 2,925,456

See accompanying notes to the financial statements.

PORT OF EDMONDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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 (5) 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 resources 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, 2011, the treasurer was holding $7,596,639 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 2011 were approximately $294,000.

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 estimated uncollectible amounts. Because property taxes and special assessments are considered liens on property, no estimated uncollectible amounts are established. Estimated uncollectible amounts for accounts receivable are $15,000 at December 31, 2011.

4. Inventory

Inventory is 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	$ 443,608
Restricted Non-Current Assets, Investments – Bond Reserve Account	801,888
Total Restricted Assets	$1,245,496

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

7. Unamortized Debt Issuance Costs

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

8. 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 employee leave benefits 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.

9. Accrued Expenses

   These accounts consist of accrued leasehold, payroll, sales, and business taxes, employee withholdings, wages payable, and abandoned property.

10. 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

The Port may invest in all types of securities approved by State law. Those securities include:

1. Savings or time accounts, including certificates of deposit, in designated qualified public depositories in accordance with RCW 39.58.

2. Certificates of deposit in commercial banks, savings and loan associations, and mutual savings banks doing business in this state, but not holding collateral pursuant to RCW 39.58, in an amount not in excess of FDIC or FSLIC insurance coverage.

3. Certificates, notes, or bonds of the United States, or other obligations of the U.S. government or its agencies, or of any corporation wholly owned by the government of the United States.

4. Bankers' acceptances purchased on the secondary market.

5. Federal home loan bank notes and bonds, Federal land bank bonds, Federal national mortgage association notes, debentures, and guaranteed certificates of participation.

6. Obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve systems.

7. Bonds of the state of Washington and any local government in the state of Washington that carry one of the three highest ratings of a nationally recognized rating agency.

8. General obligation bonds of a state other than the state of Washington and general obligation bonds of a local government of a state other than the state of Washington that carry one of the three highest ratings of a nationally recognized rating agency.

9. Shares of mutual funds with portfolios consisting of only United States government bonds or United States government guaranteed bonds issued by federal agencies with average maturities less than four years, or bonds described in (11) or (12).

10. Shares of money market funds with portfolios consisting of only bonds of states and local governments or other issuers authorized by law for investment by local governments, which bonds have at the time of investment one of the two highest credit ratings of a nationally recognized rating agency.

11. Shares of money market funds with portfolios consisting of securities otherwise authorized by law for investment by local governments.

12. Washington State Local Government Investment Pool.

Port staff invests surplus cash according to Port Resolution Number 05-13. Investment objectives, in priority order, are safety, liquidity, and return on investment.

As of December 31, 2011, the Port had the following investment:

Certificate of deposit	Matures September 27, 2012	$801,888

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

NOTE 3 – PROPERTY TAXES

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

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

Property taxes are recorded as a receivable when levied, offset by a deferred revenue. During the year, property tax revenues are recognized 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 principle, 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 2011 was approximately $0.106 per $1,000 on an assessed valuation of $3,790,361,915 for a total regular tax levy of $400,000. In 2010, the regular tax levy was $400,000.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

A. Major expenditures for capital assets in excess of $3,000, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Obligations under operating leases are disclosed in Note 8.

All capital assets 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, 2011, was as follows:

	Beginning Balance 1/1/2011	Increases	Decreases	Ending Balance 12/31/2011
Capital assets, not being depreciated				
Land	$ 4,323,675	$ -	$ -	$ 4,323,675
Construction in progress	14,618	261,789	276,407	-
Total capital assets, not being depreciated	4,338,293	261,789	276,407	4,323,675
Capital assets, being depreciated				
Buildings	14,980,128	43,309	-	15,023,437
Marina and other improvements	35,797,323	287,051	12,656	36,071,718
Machinery and equipment	1,254,788	33,257	147,841	1,140,204
Total capital assets being depreciated	52,032,239	363,617	160,497	52,235,359
Less accumulated depreciation for				
Buildings	3,620,563	568,912	-	4,189,475
Marina and other improvements	15,199,555	966,597	12,656	16,153,496
Machinery and equipment	654,458	99,818	147,840	606,436
Total accumulated depreciation	19,474,576	$ 1,635,327	$ 160,496	$ 20,949,407
Total capital assets, being depreciated, net	$ 32,557,663			$ 31,285,952

C. Construction Commitments

The Port does not have any active construction projects as of December 31, 2011.

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 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 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. 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

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may amended only by the State Legislature.

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.

PERS members 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 exercised an option to transfer their membership to Plan 3. PERS members 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 Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is two percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly 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 retiring 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 allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may 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 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides automatic annual adjustment based on the Consumer Price Index. This adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is two percent of the average final compensation per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, 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.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS 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 monthly benefit that is one percent of the average final compensation per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, 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.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

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 Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is two percent of the AFC per year of service. For Plan 3, the monthly benefit is one percent of the AFC per year of service.

These disability amounts are actuarially reduced for each year that the member’s age is less than 65, and 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 three percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Non-Vested	51,005
Total	262,285

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six 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 Plan 3 employee contribution rates range from 5 to 15 percent, based on member choice. Two 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, 2011 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.25%**	7.25%**	7.25%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for state elected officials is 10.80% for Plan 1 and 7.25% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% 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
2011	$ 23,776	$ 128,916	$ -
2010	$ 11,847	$ 63,233	$ 1,494
2009	$ 25,382	$ 69,002	$ 5,764

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 two counties and two cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2011, there were 468 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. Property coverage is written on an "all risk" basis blanket form using current Statement of Values. 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 is subject to a "per occurrence:"

- $1,000,000 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 $995,000 on liability loss.
- $250,000 deductible on property loss – 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 seven 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 AND LEASES

A. Long-Term Debt

The Port of Edmonds issues general obligation and revenue bonds to finance the acquisition, purchase, or construction of various projects. Bonded indebtedness has also been entered into in 1998 and 2005 to advance refund several general obligation and revenue bonds.

The general obligation bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	2011 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	2005 G.O. & Refunding Bonds	
December 31	Principal	Interest
2012	$ 70,000	$ 143,445
2013	645,000	129,233
2014	675,000	102,833
2015	705,000	75,233
2016	735,000	46,249
2017	765,000	15,683
Total	$ 3,595,000	$ 512,674

The revenue bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	2011 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	$ 730,000
Refund of 2006 Special Revenue Bond which was used to acquire Harbor Square buildings	2021	5.25%	$ 7,898,115	$ 99,682

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

Year Ending	1998 Rev. and Ref. Bonds		2011 Special Rev. Ref. Bonds	
December 31	Principal	Interest	Principal	Interest
2012	$ 760,000	$ 103,823	$ 161,137	$ 412,344
2013	260,000	68,483	171,107	402,374
2014	275,000	56,263	180,440	393,041
2015	285,000	43,200	190,283	383,199
2016	300,000	29,520	199,590	373,891
2017-2021	315,000	15,120	6,895,877	1,612,324
Total	$ 2,195,000	$ 316,408	$ 7,798,434	$ 3,577,173

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

At December 31, 2011, the Port had $1,245,496 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 45% of net revenues. The total principal and interest remaining to be paid on the bonds is $2,511,408. Principal and interest paid for the current year were $867,403. Pledged revenues were $5,298,660.

The Port has pledged future Harbor Square Property revenue and net revenues of the Port available after satisfying all requirements set forth the in 1998 Revenue and Refunding Bond agreement, to repay $7,898,115 in Special Revenue Refunding Bonds issued in August 2011. Proceeds from the 2011 bonds provided financing for refunding the 2006 Special Revenue Bond. Proceeds from the 2006 Special Revenue Bond were used to purchase 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 2021. Annual principal and interest payments on the bonds are expected to require less than 59% of Harbor Square Property net revenues. The total principal and interest remaining to be paid on the bonds is $11,375,607. Principal and interest paid for the current year were $837,684. Pledged Harbor Square revenues were $1,535,304.

B. Refunded Debt

The following bond issue was refunded in 2011:

Bond Issue	Amount Outstanding
2006 Special Revenue Bond	$ 7,898,115

The refunding was undertaken to lower the interest rate from 7.38% to 5.25% and to extend the maturity date from April 2016 to September 2021.

The refunded special revenue bond was retired and a new loan was initiated for the remaining principal balance of $7,898,115.

C. Operating Leases

The Port leases two copiers under an operating lease that is cancelable annually.

The previous lease expired on June 25, 2007, and was on a month-to-month basis through March 2011. The total cost for the leases from January 1, 2011 through March 2011 is $1,803.

The Port entered a new operating lease for copiers in March 2011. The total cost for that lease was $4,207 for the year ended December 31, 2011. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Amount
2012	$ 4,423
2013	4,423
2014	4,423
2015	4,423
2016	1,106
Total	$ 18,797

D. Changes in Long-Term Liabilities

During the year ended December 31, 2011, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2011	Additions	Reductions	Ending Balance 12/31/2011	Due Within One Year
Bonds Payable:					
G.O. and Refunding Bonds	$ 3,660,000	$ -	$ 65,000	$ 3,595,000	$ 70,000
Revenue & Refunding Bonds	11,014,652	7,898,115	8,919,333	9,993,434	921,137
Less Deferred Amounts:					
For issuance costs	49,474	51,591	16,321	84,744	
Add Deferred Amounts:					
For bond premiums	6,578	-	1,327	5,250	
Total bonds payable	14,631,756	7,846,524	8,969,340	13,508,940	991,137
Employee leave benefits	77,503	154,369	147,846	84,026	
Other post employment benefits	177,032	76,120	6,576	246,576	
Environmental remediation liability	612,500	-	-	612,500	
Total Long-Term Liabilities	$15,498,791	$ 8,077,014	$9,123,762	$14,452,042	$ 991,137

NOTE 9 – CONTINGENCIES AND LITIGATION

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.

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. 45 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 $246,576 is included as a noncurrent liability in the Statement of Net Assets.

	Fiscal Year Ending 12/31/2009	Fiscal Year Ending 12/31/2010	Fiscal Year Ending 12/31/2011
Determination of Annual Required Contribution:			
Normal Cost at Year End	$ 52,007	$ 52,251	$ 43,206
Amortization of Unfunded Actuarial Accrued Liability	41,030	44,994	35,816
Annual Required Contribution	$ 93,037	$ 97,245	$ 79,022
Determination of Annual OPEB Cost:			
Annual Required Contribution	$ 93,037	$ 97,245	$ 79,022
Net OPEB Obligation Interest	-	3,930	7,966
Net OPEB Obligation Amortizaton	-	(5,362)	(10,868)
Annual OPEB Cost	$ 93,037	$ 95,813	$ 76,120
Determination of Net OPEB Obligation:			
Starting Net OPEB Obligation	$ -	$ 87,345	$ 177,032
Annual OPEB Cost	93,037	95,813	76,120
Contributions	(5,692)	(6,126)	(6,576)
Net OPEB Obligation	$ 87,345	$ 177,032	$ 246,576

The Port's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2009, 2010, and 2011 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	Net OPEB Obligation
12/31/2009	$ 93,037	6.12%	$ 87,345
12/31/2010	$ 95,813	6.39%	$ 177,032
12/31/2011	$ 76,120	8.64%	$ 246,576

D. Funded Status and Funding Progress

As of December 31, 2011, 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 2011. Therefore, the Port did not make any adjustments to Environmental Remediation Liability in 2011.

A. 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.

B. 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.

C. 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

In 2008, the Port of Edmonds was experiencing collection issues with one of its Harbor Square tenants. The Port recorded a bad debt expense of $15,488 in 2008, believing that it may not be able to collect from this tenant. In 2009, the Port and the tenant made arrangements for the tenant to catch up with back rent, and to be fully caught up by May 31, 2010. At the end of 2009, the Port found that the tenant was not fulfilling his agreement, and the Port recorded additional bad debt expense of $15,145. In addition, the Port notified the guarantor of the lease that the lease was in default. In 2010, the guarantor took over the lease agreement, and paid the Port half of the balance due, with the agreement to pay back the remainder over the life of the lease. The guarantor has continued to make monthly payments as per the agreement, and it appears that the entire balance will be paid. Therefore, the Port recorded a prior period adjustment of $15,146 in 2011 to reflect that the Port estimates that all Harbor Square accounts receivables are collectible.

The Port also recorded a prior period adjustment of $79.45 in 2011 to adjust an overaccrual of meeting room revenue in 2010.

C. Extraordinary/Special Items

On December 31, 2011, two boats moored at the Port of Edmonds caught fire, causing damage to the Port's floats, dock, roof, roof supports, and electrical system that provides lighting on the dock. A claim for damages has been filed with the Port of Edmonds' insurance company, and they have agreed to pay for repairs to the Port's facility, less the Port's deductible of $5,000. If the fire investigators determine a responsible party, it is likely that the Port's insurance company will subrogate to the responsible party's insurance company.

GASB Statement Number 42 requires that the loss should be reported net of the associated insurance recovery when the recovery and loss occur in the same year. In this case, the loss occurred in 2011, and the recovery will occur in 2012.

PORT OF EDMONDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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 resources 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, 2010, the treasurer was holding $6,717,219 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 2010 were approximately $263,000.

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 $30,096 at December 31, 2010.

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	$ 434,103
Restricted Non-Current Assets, Investments – Bond Reserve Account	800,900
Total Restricted Assets	$1,235,003

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 2010. The acquisition was fully amortized in the amount of $952,318 at December 31, 2010.

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 employee leave benefits 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, 2010, the Port had the following investment:

Certificate of deposit	Matures September 28, 2011	$800,900

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

NOTE 3 – PROPERTY TAXES

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

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

Property taxes are recorded as a receivable when levied, offset by a deferred revenue. During the year, property tax revenues are recognized 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 2010 was approximately $0.098 per $1,000 on an assessed valuation of $4,092,726,264 for a total regular tax levy of $400,000. In 2009, 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. Obligations under operating leases are disclosed in Note 8.

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, 2010, was as follows:

	Beginning Balance 1/1/2010	Increases	Decreases	Ending Balance 12/31/2010
Capital assets, not being depreciated				
Land	$ 4,323,675	$ -	$ -	$ 4,323,675
Construction in progress	134,791	125,526	245,699	14,618
Total capital assets, not being depreciated	4,458,466	125,526	245,699	4,338,293
Capital assets, being depreciated				
Buildings	14,767,374	212,754	-	14,980,128
Marina and other improvements	35,443,514	373,809	20,000	35,797,323
Machinery and equipment	1,044,928	258,108	48,248	1,254,788
Total capital assets being depreciated	51,255,816	844,671	68,248	52,032,239
Less accumulated depreciation for				
Buildings	3,061,195	559,368	-	3,620,563
Marina and other improvements	14,202,883	1,010,944	14,272	15,199,555
Machinery and equipment	617,832	80,524	43,898	654,458
Total accumulated depreciation	17,881,910	$ 1,650,836	$ 58,170	$ 19,474,576
Total capital assets, being depreciated, net	$ 33,373,906			$ 32,557,663

C. Construction Commitments

The Port has active construction projects as of December 31, 2010. The projects and the Port's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
M and N Waler Project	$ 9,484	$ 205,373
	$ 9,484	$ 205,373

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 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. 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 members 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 members 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 Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS 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 monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly 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 retiring 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 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with 5 years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance is granted at age 66 based upon years of service times the COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military, if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of 5 years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with 5 years of service. The monthly benefit is 2 percent of the average final compensation per year of service. (The AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap of years service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned 10 years of service credit may request a refund of the member's accumulated contributions. Effective July 22, 2007, said refund (adjusted as needed for specified legal reductions) is increased from 100 percent to 200 percent of the accumulated contributions if the member's death occurs in the uniformed service to the United States while participating in *Operation Enduring Freedom* or *Persian Gulf, Operation Iraqi Freedom.*

PERS 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 that is 1 percent of the average final compensation per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, PERS 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 for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least 10 service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, 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. PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities.

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 Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit is 1 percent of the AFC per year of service.

These disability amounts are actuarially reduced for each year that the member’s age is less than 65, and 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.

PERS Plan 2 and Plan 3 members may have up to 10 years of interruptive military service credit; 5 years at no cost and 5 years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to 5 years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member’s retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with 10 years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,189 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	74,857
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,074
Active Plan Members Vested	105,339
Active Plan Members Non-Vested	53,896
Total	262,166

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 Director of the Department of Retirement Systems 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, 2010 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
2010	$ 11,847	$ 63,233	$ 1,494
2009	$ 25,382	$ 69,002	$ 5,764
2008	$ 22,848	$ 67,994	$ 2,948

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, 2010, there were 451 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 is subject to a "per occurrence:"

- $750,000 deductible on liability loss – from September 1, 2009 to December 31, 2009, 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.
- $1,000,000 deductible on liability loss – from January 1, 2010 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 $995,000 on liability loss.
- $250,000 deductible on property loss – 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 AND LEASES

A. Long-Term Debt

The Port of Edmonds issues general obligation and revenue bonds to finance the acquisition, purchase, or construction of various projects. Bonded indebtedness has also been entered into in 1998 and 2005 to advance refund several general obligation and revenue bonds.

The general obligation bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	2010 Installment
Refund 1997 G.O. Bonds	2017	3.00-4.10%	$ 3,925,000	$ 70,000

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

Year Ending	2005 G.O. & Refunding Bonds	
December 31	Principal	Interest
2011	65,000	145,936
2012	70,000	143,445
2013	645,000	129,233
2014	675,000	102,833
2015	705,000	75,233
2016	735,000	46,249
2017	765,000	15,683
Total	$ 3,660,000	$ 658,609

The revenue bonds currently outstanding are as follows:

Purpose	Maturity	Interest Rate	Original Amount	2010 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	$ 700,000
Acquisition of Harbor Square buildings	2016	7.38%	$ 10,000,000	$ 269,235

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

Year Ending	1998 Rev. and Ref. Bonds		2006 Special Rev. Bonds	
December 31	Principal	Interest	Principal	Interest
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	-	43,200	390,831	494,736
2016	-	43,200	6,398,390	158,764
2017	900,000	43,200	-	-
Total	$ 2,925,000	$ 495,570	$ 8,089,652	$ 2,895,340

Unamortized debt issuance 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, 2010, the Port had $1,235,003 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 47% of net revenues. The total principal and interest remaining to be paid on the bonds is $3,420,570. Principal and interest paid for the current year were $868,903. Pledged revenues were $5,294,236.

The Port has pledged future Harbor Square Property revenue and net revenues of the Port available after satisfying all requirements set forth the in 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 92% of Harbor Square Property net revenues. The total principal and interest remaining to be paid on the bonds is $10,984,992. Principal and interest paid for the current year were $885,568. Pledged Harbor Square revenues were $1,472,334.

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 $6,926 for the year ended December 31, 2010. There are no future minimum lease payments for these leases.

C. Changes in Long-Term Liabilities

During the year ended December 31, 2010, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2010	Additions	Reductions	Ending Balance 12/31/2010	Due Within One Year
Bonds Payable:					
G.O. and Refunding Bonds	$ 3,730,000	$ -	$ 70,000	$ 3,660,000	$ 65,000
Revenue & Refunding Bonds	11,983,887	-	969,235	11,014,652	1,020,119
Less Deferred Amounts:					
For issuance costs	66,669	-	17,195	49,474	
Add Deferred Amounts:					
For bond premiums	7,932	-	1,353	6,578	
Total bonds payable	15,655,150	-	1,023,393	14,631,756	1,085,119
Employee leave benefits	76,497	153,827	152,821	77,503	
Other post employment benefits	87,345	95,813	6,126	177,032	
Environmental remediation liability	612,500	-	-	612,500	
Total Long-Term Liabilities	$16,431,492	$ 249,640	$1,182,340	$15,498,791	$1,085,119

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 Port of Edmonds, Triton Marine, ICI-Devoe Paint Company, and Blackwater Marine settled the case in June 2010. ICI-Devoe Paint Company and BergerABAM both contributed $300,000 towards the settlement. The Port paid $121,462.50, which included $62,500 plus sales tax on the settlement. In addition, the Port released retainage of $148,778.00 and paid the unpaid contract balance of $21,268.01 plus applicable sales tax.

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. 45 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 $177,032 is included as a noncurrent liability in the Statement of Net Assets.

		Fiscal Year Ending 12/31/2009		Fiscal Year Ending 12/31/2010
Determination of Annual Required Contribution:				
Normal Cost at Year End	$	52,007	$	52,251
Amortization of Unfunded Actuarial Accrued Liability		41,030		44,994
Annual Required Contribution	$	93,037	$	97,245
Determination of Annual OPEB Cost:				
Annual Required Contribution	$	93,037	$	97,245
Net OPEB Obligation Interest		-		3,930
Net OPEB Obligation Amortizaton		-		(5,362)
Annual OPEB Cost	$	93,037	$	95,813
Determination of Net OPEB Obligation:				
Starting Net OPEB Obligation	$	-	$	87,345
Annual Required Contribution		93,037		95,813
Contributions		5,692		6,126
Net OPEB Obligation	$	87,345	$	177,032

The Port's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and 2010 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	Net OPEB Obligation
12/31/2009	$ 93,037	6.12%	$ 87,345
12/31/2010	$ 95,813	6.39%	$ 177,032

D. Funded Status and Funding Progress

As of December 31, 2010, 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 2010. Therefore, the Port did not make any adjustments to Environmental Remediation Liability in 2010.

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

In 2009, the Port of Edmonds accrued payroll taxes of $450,126, including taxes such as federal withholding and FICA withheld from employees. The Port of Edmonds participates in the Labor and Industries Retrospective Rating Program (Retro), which is an optional financial incentive program offered by L&I to help qualifying employers reduce their industrial insurance costs.

Enrolling in Retro does not change the industrial insurance rates assigned to an employer, or the premiums which are paid on a quarterly basis. There is no special "up-front discount" just for enrolling in retrospective rating. An employer's rates and experience factor are re-calculated for each calendar year, just as they otherwise would be.

A Retro coverage period lasts 12 months, beginning any calendar quarter. About 10 months after the end of a given Retro coverage period, L&I looks back and calculates the retrospective premium. This is also known as a "Retro adjustment" (the first of three). If claim costs for the coverage period are lower than anticipated, a portion of the premiums paid are refunded. If, however, claim costs are above a certain point (depending on the plan and level of risk chosen when the employer enrolled), an assessment for additional premium would be made. There is a pre-selected limit to this additional assessment, but it is critical that this risk is recognized and understood. It is a very real contingent liability.

One of the key features about Retro is that when calculating retrospective premium, only claims with a date of injury within the Retro coverage period are considered. No other claims — even if they are still open with benefits being paid — are considered. Because you start each coverage period with a "blank slate," sometimes the best time to participate in Retro is when your regular rates are relatively high because of previous unfavorable claims experience.

A second Retro adjustment, which may result in additional refunds or assessments, is performed about 12 months after the first adjustment (about 22 months after the Retro year ended). The time period between the end of a coverage year and when adjustments are done allows employers time to get their claims closed and more time for the Retro claims to "mature" (so L&I will have a better estimate of their eventual final costs). A third and final adjustment is done 12 months after the second adjustment, with the same rules applying.

During 2009, the Port of Edmonds experienced an unfavorable claims rate. The claims were more severe and more expensive than previous years. At year end, the Port had accrued its payroll tax liability by $6,817 over its payroll tax returns. The Port did not adjust this amount in 2009, believing that it would receive a Retro assessment in 2010. This did not occur. The Port recorded a prior period adjustment of $6,817 in 2010 to reflect the change in liability and expenses from 2009.

In 2008, the Port of Edmonds was experiencing collection issues with one of its Harbor Square tenants. The Port recorded a bad debt expense of $15,488 in 2008, believing that it may not be able to collect from this tenant. In 2009, the Port and the tenant made arrangements for the tenant to catch up with back rent, and to be fully caught up by May 31, 2010. At the end of 2009, the Port found that the tenant was not fulfilling his agreement, and the Port recorded additional bad debt expense of $15,145. In addition, the Port notified the guarantor of the lease that the lease was in default. In 2010, the guarantor took over the lease agreement, and paid the Port half of the balance due, with the agreement to pay back the remainder over the life of the lease. The Port recorded a prior period adjustment of $20,650 in 2010 to reflect the change in assets and expenses from 2008 and 2009.

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

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL As A Percentage of Covered Payroll
December 31, 2009	$ -	$ 668,333	$ 668,333	0.00%	$ 1,368,184	48.85%
December 31, 2010	$ -	$ 732,909	$ 732,909	0.00%	$ 1,346,291	54.44%
December 31, 2011	$ -	$ 583,392	$ 583,392	0.00%	$ 1,199,530	48.64%

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

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL As A Percentage of Covered Payroll
December 31, 2009	$ -	$ 668,333	$ 668,333	0.00%	$ 1,368,184	48.85%
December 31, 2010	$ -	$ 732,909	$ 732,909	0.00%	$ 1,346,291	54.44%

ABOUT THE STATE AUDITOR'S OFFICE

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 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 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 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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