

INDEPENDENT AUDITOR'S REPORT

To the Port Commission
Port of Seattle
Seattle, Washington

We have audited the accompanying financial statements of the Enterprise Fund and the Warehousemen's Pension Trust Fund of the Port of Seattle (the "Port") as of December 31, 2008 and 2007 and for the years ended December 2008, 2007, and 2006, which collectively comprise the Port's basic financial statements as listed in the table of contents. 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. 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 respective financial position of the Enterprise Fund and the Warehousemen's Pension Trust Fund as of December 31, 2008 and 2007, and the changes in financial position and cash flows for the Enterprise Fund, and the changes in net assets for the Warehousemen's Pension Trust Fund for the years ended December 2008, 2007, and 2006, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Port's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

Moss Adams LLP

Seattle, Washington
April 30, 2009

PORT OF SEATTLE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2008

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") of the Port of Seattle's (the "Port") activities and financial performance provides an introduction to the financial statements of the Port for the fiscal year ended December 31, 2008, including the Port operations within the Enterprise Fund and the Warehousemen's Pension Trust Fund, with selected comparative information for the years ended December 31, 2007 and 2006. The Enterprise Fund accounts for all activities and operations of the Port except for the activities included within the Warehousemen's Pension Trust Fund. This includes the Port's major business activities, which are comprised of the Aviation, Seaport, and the Real Estate divisions. Enterprise Funds are used to account for operations and activities that are financed at least in part by fees or charges to external users. The Warehousemen's Pension Trust Fund accounts for the assets of the employee benefit plan held by the Port in a trustee capacity. The Port became the sole administrator for the Warehousemen's Pension Plan and Trust effective May 25, 2004. The MD&A presents certain required supplementary information regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures. The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section. The notes are essential to thoroughly understand the data contained in the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The report includes the following three basic financial statements for the Port Enterprise Fund: the statements of net assets, the statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The report also includes the following two basic financial statements for the Warehousemen's Pension Trust Fund: statements of net assets and statements of changes in net assets.

ENTERPRISE FUND

Financial Position Summary

The statements of net assets present the financial position of the Enterprise Fund of the Port at the end of the fiscal year. The statements include all assets and liabilities of the Enterprise Fund. Net assets, the difference between total assets and total liabilities, is an indicator of the current fiscal health of the organization and the enterprise's financial position over time. A summarized comparison of the Enterprise Fund assets, liabilities, and net assets at December 31 is as follows (in millions):

	2008	2007	2006
ASSETS:			
Current, long-term, and other assets	\$ 819.9	\$ 1,265.1	\$ 799.1
Capital assets	<u>5,345.4</u>	<u>5,169.3</u>	<u>4,909.8</u>
Total assets	<u>\$ 6,165.3</u>	<u>\$ 6,434.4</u>	<u>\$ 5,708.9</u>
LIABILITIES:			
Current liabilities	\$ 418.2	\$ 752.1	\$ 388.7
Long-term liabilities	<u>3,107.2</u>	<u>3,192.3</u>	<u>3,035.7</u>
Total liabilities	<u>\$ 3,525.4</u>	<u>\$ 3,944.4</u>	<u>\$ 3,424.4</u>
NET ASSETS:			
Invested in capital assets—net of related debt	\$ 2,270.7	\$ 2,166.9	\$ 2,073.4
Restricted assets	34.2	33.7	45.3
Unrestricted net assets	<u>335.0</u>	<u>289.4</u>	<u>165.8</u>
Total net assets	<u>\$ 2,639.9</u>	<u>\$ 2,490.0</u>	<u>\$ 2,284.5</u>

Assets exceeded liabilities by \$2.6 billion, a \$154.6 million increase based on restated 2008 beginning balance over total net assets as of December 31, 2007 compared to \$2.5 billion, and a \$205.5 million increase over total net assets as of December 31, 2006. For each year presented, the largest portion of the Enterprise Fund's net assets represents its investment in capital assets, less the related debt outstanding used to acquire those capital assets. The Port uses these capital assets to provide services to its tenants, passengers, and customers of the Aviation, Seaport and Real Estate Divisions; consequently, these assets are not available for future spending. Although the Port's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since the capital assets themselves cannot be used to liquidate liabilities. From 2007 to 2008 and from 2006 to 2007, there was an increase of \$103.8 million and \$93.5 million, respectively, in invested in capital assets net of related debt from the continued creation of new assets.

As of December 31, 2008 and 2007, the restricted net assets of \$34.2 million and \$33.7 million, respectively, are mainly comprised of net assets from Passenger Facility Charges (PFCs) and Customer Facility Charges (CFCs) which are subject to Federal and State regulations on their uses. From 2007 to 2008 and from 2006 to 2007, there was an increase of \$0.5 million and a decrease of \$11.6 million, respectively, in restricted net assets due to the timing of spending from PFCs and CFCs.

As of December 31, 2008 and 2007, the unrestricted net assets of \$335.0 million and \$289.4 million, respectively, may be used to satisfy the Port's ongoing obligations. However, amounts from airport operations must be used solely for the Aviation Division's ongoing obligations. Cash and cash equivalents, and investment balances related to such airport operations total \$230.5 million and \$246.4 million for the years ended 2008, and 2007, respectively. The decrease in this category from 2007 is largely due to utilizing the funds for capital spending during 2008.

Statements of Revenues, Expenses, and Changes in Net Assets

The change in net assets is an indicator of whether the overall fiscal condition of the Enterprise Fund has improved or worsened during the year. Following is a summary of the statements of revenues, expenses, and changes in net assets (in millions):

	2008	2007	2006
Operating revenues	\$ 489.0	\$ 461.1	\$ 448.5
Operating expenses	<u>280.3</u>	<u>241.8</u>	<u>223.6</u>
Operating income before depreciation	208.7	219.3	224.9
Depreciation	<u>144.2</u>	<u>141.6</u>	<u>140.2</u>
Operating income	64.5	77.7	84.7
Nonoperating income—net	<u>90.1</u>	<u>127.8</u>	<u>116.3</u>
Increase in net assets	154.6	205.5	201.0
Net assets—beginning of year, as restated (Note 1)	<u>2,485.3</u>	<u>2,284.5</u>	<u>2,083.5</u>
Net assets—end of year	<u>\$ 2,639.9</u>	<u>\$ 2,490.0</u>	<u>\$ 2,284.5</u>

Financial Operation Highlights

A summary of gross operating revenues follows (in millions):

	2008	2007	2006
OPERATING REVENUES:			
Services	\$ 187.8	\$ 168.7	\$ 161.2
Property rentals	286.2	279.4	273.5
Fuel hydrant facility revenues	2.9	8.0	8.1
Operating grant and contract revenues	<u>12.1</u>	<u>5.0</u>	<u>5.7</u>
Total	<u>\$ 489.0</u>	<u>\$ 461.1</u>	<u>\$ 448.5</u>

During 2008, operating revenue within the Enterprise Fund increased 6.1% from \$461.1 million to \$489.0 million. Aviation Division operating revenues increased \$10.8 million due to (1) an increase in landing fee revenue resulting from a rate increase to recover higher operating costs, and (2) an increase in parking revenues resulting from a rate increase in late 2007, while 2008 included a full year of the increase. Amounts were partially offset by a decrease in fuel hydrant facility revenues due to a refund of unspent bond proceeds to the lessee. Seaport Division operating revenues increased \$15.2 million from 2007 due to (1) receipt of retroactive environmental clean-up grant money from the Department of Ecology for the Terminal 5 and Harbor Island superfund sites, (2) an increase in the container terminal lease rate, effective on January 1, 2008, (3) an increase in cruise revenues, largely due to higher passenger volumes, and (4) an increase in bulk terminal revenues due to higher grain volumes. Amounts were partially offset by a reduction in container terminal leased acres at Terminal 5 and crane rent. Real Estate Division operating revenues increased \$2.2 million from 2007 primarily due to completion of construction

at Shilshole Bay Marina, in 2008 and an increase in event activity at Bell Harbor International Conference Center.

During 2007, operating revenue within the Enterprise Fund increased 2.8% from \$448.5 million to \$461.1 million. Aviation Division operating revenues increased \$10.0 million due to (1) an increase in landing fee revenue from a rate increase to recover higher operating and debt service costs, (2) an increase in parking revenues from higher numbers of weekly, passport, and corporate premier parking, (3) an increase in concession revenues from higher concession sales per enplanement, (4) an increase in rental car revenue due to higher growth and a \$1.2 million minimum annual guarantee adjustment resulting from an internal audit of rental car agencies, and partially offset by (5) a reduction in Radisson Hotel lease revenue due to its closure in 2006 and a one-time easement payment from Sound Transit. Seaport Division operating revenues increased \$1.8 million from 2006 due to (1) an increase in cruise revenues resulting from an increase in the number of cruise passengers, higher passenger fees and more favorable lease terms with the cruise terminal operator in effect in 2007, (2) higher occupancy at industrial docks and properties, and (3) higher occupancy and activity in commercial real estate properties. Amounts were partially offset by a decline in security grant revenue and a decline in container crane rent resulting from increased use of tenant owned cranes.

A summary of operating expenses before depreciation follows (in millions):

	2008	2007	2006
OPERATING EXPENSES BEFORE DEPRECIATION:			
Operations and maintenance	\$ 206.8	\$ 178.7	\$ 173.0
Administration	44.4	38.8	33.8
Law enforcement	20.2	19.2	18.0
Environmental—net	<u>8.9</u>	<u>5.1</u>	<u>(1.2)</u>
Total operating expenses before depreciation	<u>\$ 280.3</u>	<u>\$ 241.8</u>	<u>\$ 223.6</u>

During 2008, operating expenses increased 15.9% from \$241.8 million to \$280.3 million from prior year. Aviation Division operating expenses increased \$23.6 million primarily due to (1) an increase in new full-time-equivalent positions to maintain the baggage system asset and an other postemployment benefit reserve adjustment for the firefighter (LEOFF 1) plan members, (2) expensing of capital-related write-offs, (3) an increase in materials and supplies such as the purchase of deicer fluid, and (4) an increase in worker's compensation claims in the Maintenance Department. Seaport Division operating expenses increased \$8.9 million from 2007. The increase was primarily caused by special expense projects including the upland disposal of Terminal 30 dredge materials, repairment of Terminal 46 cranes, and expense elements of the Terminal 30/Terminal 91 project. Real Estate Division operating expenses increased \$9.0 million over 2007 primarily due to expensing previously capitalized costs in connection with a plan to develop North Bay. Portwide operations and maintenance expenses increased due to additional resources required, such as the Central Procurement Office, to support and implement State performance audit recommendations, and a newly added Office of Social Responsibility. Administration expenses increased \$5.6 million primarily due to increases in (1) salaries, wages and benefits from filling previously vacant positions, and (2) legal expenses relating to several audits. Portwide environmental—net expenses increased due to the adoption of a new accounting standard implemented in 2008 to account for environmental reserves.

During 2007, operating expenses increased 8.1% from \$223.6 million to \$241.8 million from prior year. Aviation Division operating expenses increased \$10.8 million primarily due to (1) an increase in salaries, wages and benefits from additional new positions, regular annual salary increases, new contractual rates, and higher medical insurance costs offset by (2) an increase in materials and supplies resulting partially from researching and assessing values to various inventory items that were previously not known and were valued at zero cost, (3) a decrease in outside services of which a portion relates to closing the Radisson Hotel in 2006, and (4) a reduction in electricity costs due to lower rates and the energy

conservation program. Seaport Division operating expenses increased \$6.4 million from 2006. This was primarily caused by increases in the environmental reserve for several sites due to scope expansion and new cost information. Amounts were partially offset by a decrease in security grant related expenses. Portwide operations and maintenance expenses increased \$6.8 million due to the adoption of a new accounting standard implemented in 2007 to account for other postemployment benefits. Administration expenses increased \$5.0 million primarily due to increases in (1) salaries, wages and benefits from job evaluation refresh projects along with some new positions added in 2007, and (2) outside services primarily focused in information technology due to maintenance of new systems.

As a result of the above, 2008 operating income before depreciation decreased \$10.6 million from 2007, and decreased \$5.6 million in 2007 from 2006.

2008 depreciation expense increased \$2.6 million from 2007 and increased \$1.4 million in 2007 from 2006, respectively, due to an overall increase in additions to capital assets year over year.

A summary of nonoperating income—net follows (in millions):

	2008	2007	2006
NONOPERATING INCOME (EXPENSE):			
Ad valorem tax levy revenue	\$ 75.7	\$ 68.6	\$ 62.7
Passenger facility charges revenue and related interest income	62.8	63.1	59.1
Customer facility charges revenue and related interest income	23.5	22.6	17.2
Grants and donations	52.4	94.9	127.5
Investment income—net	35.8	57.2	28.9
Revenue and capital appreciation bond interest expense	(105.1)	(113.0)	(101.5)
Passenger facility charges revenue bond interest expense	(11.4)	(11.8)	(12.3)
General obligation bond interest expense—net	(17.0)	(15.6)	(15.8)
Public expense	(27.5)	(8.6)	(11.0)
Other income (expense)—net	<u>0.9</u>	<u>(29.6)</u>	<u>(38.5)</u>
Total	<u>\$ 90.1</u>	<u>\$ 127.8</u>	<u>\$ 116.3</u>

During 2008, nonoperating income—net was \$90.1 million or \$37.7 million lower than 2007. This was due primarily to (1) a decrease in grants and donations revenues specifically relating to Transportation Security Administration (TSA) Aviation grants and Federal Aviation Administration (FAA) grants from reduced spending on grant funded projects such as in-line baggage screening and Noise Program acquisition and insulated projects along with (2) a decrease in investment income—net from declining interest rates coupled with lower portfolio balances, and (3) higher public expenses from the transfer of ownership of the Third Runway Navigational Aids System to the FAA with a cost of \$24.0 million. These amounts were partially offset by a decrease in loss from the disposal of assets largely from the sale of Pier 48 resulting in a gain of \$9.6 million.

During 2007, nonoperating income—net was \$127.8 million or \$11.5 million higher than 2006. This was due primarily to an increase in investment income—net of \$28.3 million due to favorable market conditions and \$9.0 million in additional income related to security lending agreements along with a \$19.8 million favorable variance in losses from the demolition of capital assets. In prior years, capital assets that were placed out of service were identified by the Port during a full physical inventory of capital assets. Additionally, the Aviation Division recorded \$2.7 million in other revenue from properties reverting to the Port at the end of their lease terms. These favorable variances were partially offset by \$8.6 million in investment fees from the security lending agreements mentioned above and lower grant revenues related to the security program at the airport from the closeout of some programs and fully utilizing available grant funding for other programs.

Increase in net assets for 2008 and 2007 was \$154.6 million and \$205.5 million, respectively, compared to \$201.0 million in 2006. Though a lower increase than prior years, there was still positive growth in net operating income and nonoperating income—net for 2008 resulting in the corresponding increase in net assets. For 2007, there were significant increases in nonoperating income partially offset by a decrease in operating income before depreciation and higher depreciation expense for the year.

WAREHOUSEMEN'S PENSION TRUST FUND

The Warehousemen's Pension Trust Fund accounts for the assets of the employee benefit plan held by the Port in a trustee capacity. Effective May 25, 2004, the Port became the sole administrator of the Warehousemen's Pension Plan and Trust (the "Plan"). This plan was originally established to provide pension benefits for the employees at the Port's warehousing operations at Terminal 106. In late 2002, the Port terminated all warehousing operations following the departure of the principal customer who operated the facility. The Plan provides that only service credited and compensation earned prior to April 1, 2004, shall be utilized to calculate benefits under the Plan, and the Port agrees to maintain the frozen Plan and to contribute funds to the Plan in such amounts that may be necessary to enable the Plan to pay vested accrued benefits as they become due and payable to participants and beneficiaries of the Plan. A summarized comparison of the assets, liabilities, and net assets of the Warehousemen's Pension Trust Fund as of December 31, 2008, 2007 and 2006, and changes in net assets for the years ended December 31, 2008, 2007 and 2006 (in millions) are as follows:

	2008	2007	2006
Total assets	\$ 8.5	\$ 13.1	\$ 13.0
Total liabilities	<u> </u>	<u> </u>	<u> </u>
Total net assets	<u>\$ 8.5</u>	<u>\$ 13.1</u>	<u>\$ 13.0</u>
Total (deductions) additions	(2.3)	2.3	2.9
Total (deductions)	<u>(2.3)</u>	<u>(2.2)</u>	<u>(2.2)</u>
(Decrease) Increase in net assets	(4.6)	0.1	0.7
Net assets—beginning of year	<u>13.1</u>	<u>13.0</u>	<u>12.3</u>
Net assets—end of year	<u>\$ 8.5</u>	<u>\$ 13.1</u>	<u>\$ 13.0</u>

Total net assets as of December 31, 2008 decreased by \$4.6 million from December 31, 2007 mainly due to a \$0.5 million loss on investments sold in 2008, and a decrease in fair value of investments of \$3.7 million resulting from unfavorable market conditions compared to 2007.

Total net assets as of December 31, 2007 increased by \$0.1 million over total net assets as of December 31, 2006 due to a \$0.6 million gain on investments sold in 2007. This increase was partially offset by a decrease in fair value of investments of \$0.2 million due to market conditions compared to 2006.

Additional information on the Port's Warehousemen's Pension Trust Fund can be found in Note 15 in the accompanying notes to the financial statements.

CAPITAL ASSETS

The Port's capital assets as of December 31, 2008, amounted to \$5.3 billion (net of accumulated depreciation). This investment in capital assets includes land, air rights, facilities improvements, equipment, furniture and fixtures, and construction work in progress. The total increase in the Port's investment in capital assets after accumulated depreciation for 2008 was 3.4%, or \$176.1 million.

During 2008, completed projects totaling \$1.0 billion were closed from construction-in-progress to their respective capital accounts. The major completed projects were (in millions):

Aviation Division:

Third Runway	\$ 647.6
Baggage Systems	148.0
North Expressway Relocation	82.3
Central Terminal	10.2

Seaport Division:

Terminal 18 Upgrades	\$ 29.5
Terminal 115	10.1

Real Estate Division:

Fishermen's Terminal	\$ 13.3
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Capital asset acquisitions are capitalized at cost and depreciated using the straight-line method. During 2008, the Port collected \$74.5 million in property taxes through a King County ad valorem tax levy. Through this tax levy, PFCs, Federal and State grants, net increase in assets, and various bond issues, the Port funds capital assets. All capital assets are accounted for within the Enterprise Fund. Additional information on the Port's capital assets can be found in Note 3 in the accompanying notes to the financial statements.

DEBT ADMINISTRATION

As of December 31, 2008, the Port had outstanding revenue bonds and notes of \$2.6 billion, an \$85.4 million decrease from 2007 primarily due to scheduled principal payments. During 2008, subordinate lien revenue notes (tax-exempt commercial paper) decreased by \$32.8 million from \$186.3 million in 2007 to \$153.5 million in 2008. On June 11, 2008, the Port issued \$200.7 million of subordinate lien revenue bonds, Series 2008, to refund subordinate lien revenue bonds, Series 2003C, and to pay the costs of issuing the Series 2008 bonds.

As of December 31, 2008, the Port had outstanding general obligation bonds of \$378.1 million, a \$19.7 million decrease from 2007 due to scheduled principal payments.

As of December 31, 2008, the Port had outstanding PFC revenue bonds of \$209.7 million, a \$9.1 million decrease from 2007 due to scheduled principal payments.

As of December 31, 2008, the Port had outstanding Fuel Hydrant Special Facility Revenue bonds of \$110.4 million, a \$6.4 million decrease from 2007 due to \$4.0 defeasance of debt on December 1, 2008 and \$2.4 million scheduled principal payments. The fuel facilities are leased to SeaTac Fuel Facilities LLC ("Lessee") for 40 years. The Port owns the fuel system and the Lessee is obligated to collect the fuel system fees and to make monthly rent payments including a base rent for the land to the Port and facilities rent to Wells Fargo Bank Northwest, National Association ("Trustee"). Facilities rent is established at an amount sufficient to pay monthly debt service, replenish any deficiency in the debt service reserve fund, and pay other fees associated with the bonds, including the Trustee fee. No tax funds or revenues of the Port (other than fuel facilities lease revenues) are pledged to pay the debt service on the bonds.

Below are the underlying ratings for Port of Seattle bonds as of December 31, 2008. Many of the Port's bond issues include credit enhancement; the credit ratings for those issues are the ratings of the bond insurer or letter of credit provider.

Current Bond Ratings	Fitch	Moody's	S&P
General obligation bonds	AA+	Aa1	AAA
First lien revenue bonds	AA	Aa2	AA-
Intermediate lien revenue bonds	A+	Aa3	A+
Subordinate lien revenue bonds	A	A1	A

Additional information on the Port's debt activity can be found in Note 5 in the accompanying notes to the financial statements.

PORT OF SEATTLE

ENTERPRISE FUND

STATEMENTS OF NET ASSETS AS OF DECEMBER 31, 2008 AND 2007 (In thousands)

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 29,862	\$ 38,083
Restricted cash and cash equivalents:		
Securities lending		319,521
Bond funds and other	17,188	46,019
Fuel hydrant assets held in trust	6,305	10,270
Short-term investments	146,564	82,200
Restricted short-term investments:		
Bond funds and other	82,722	98,489
Fuel hydrant assets held in trust		8,938
Accounts and contracts receivable, less allowance of \$522 and \$1,645 for doubtful accounts	35,459	34,295
Federal grants-in-aid receivable	13,300	19,932
Taxes receivable	1,837	1,554
Materials and supplies	6,012	6,105
Prepayments and other current assets	3,887	6,985
Total current assets	<u>343,136</u>	<u>672,391</u>
NONCURRENT ASSETS:		
Long-term investments	271,848	243,287
Restricted long-term investments:		
Bond funds and other	159,996	306,591
Fuel hydrant assets held in trust	4,100	121
Deferred finance costs, net of accumulated amortization of \$34,053 and \$30,937	33,028	38,762
Other long-term assets	7,798	3,957
CAPITAL ASSETS:		
Land and air rights	1,880,096	1,337,320
Facilities and improvements	4,092,289	3,671,843
Equipment, furniture, and fixtures	333,353	323,945
Total capital assets	<u>6,305,738</u>	<u>5,333,108</u>
Less accumulated depreciation	1,255,022	1,157,381
Construction work in progress	294,635	993,574
Total capital assets—net	<u>5,345,351</u>	<u>5,169,301</u>
Total noncurrent assets	<u>5,822,121</u>	<u>5,762,019</u>
TOTAL	<u>\$ 6,165,257</u>	<u>\$ 6,434,410</u>

See notes to financial statements.

	2008	2007
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 71,483	\$ 61,414
Payroll and taxes payable	35,736	28,728
Bond interest payable	40,968	43,219
Lease deposits and customer advances	6,831	13,411
Current security fund liability	15,813	15,059
Securities lending obligation		319,521
Current maturities of long-term debt	<u>247,325</u>	<u>270,810</u>
Total current liabilities	<u>418,156</u>	<u>752,162</u>
LONG-TERM LIABILITIES:		
Other postemployment benefits obligation	13,136	6,052
Accrued environmental expenses	18,089	6,179
Accrued long-term expenses	<u>4,354</u>	<u>3,735</u>
Total long-term liabilities	<u>35,579</u>	<u>15,966</u>
LONG-TERM DEBT—Less current maturities:		
Revenue bonds	2,368,560	2,428,940
General obligation bonds	357,315	378,065
Passenger facility charges revenue bonds	200,155	209,685
Fuel hydrant special facility bonds	108,005	114,445
Unamortized bond premiums—net of discounts and amortization	<u>37,573</u>	<u>45,167</u>
Total long-term debt	<u>3,071,608</u>	<u>3,176,302</u>
Total noncurrent liabilities	<u>3,107,187</u>	<u>3,192,268</u>
Total liabilities	<u>3,525,343</u>	<u>3,944,430</u>
CONTINGENCIES AND COMMITMENTS (Notes 11 and 12)		
NET ASSETS:		
Invested in capital assets—net of related debt	2,270,740	2,166,854
Restricted for:		
Passenger facility charges	33,692	21,281
Customer facility charges		11,832
Grants and other	535	623
Unrestricted	<u>334,947</u>	<u>289,390</u>
Total net assets	<u>2,639,914</u>	<u>2,489,980</u>
TOTAL	<u>\$ 6,165,257</u>	<u>\$ 6,434,410</u>

See notes to financial statements.

PORT OF SEATTLE

ENTERPRISE FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(In thousands)

	2008	2007	2006
OPERATING REVENUES:			
Services	\$ 187,791	\$ 168,679	\$ 161,200
Property rentals	286,139	279,378	273,529
Fuel hydrant facility revenues	2,926	8,054	8,077
Operating grant and contract revenues	<u>12,140</u>	<u>5,035</u>	<u>5,643</u>
Total revenue	<u>488,996</u>	<u>461,146</u>	<u>448,449</u>
OPERATING EXPENSES BEFORE DEPRECIATION:			
Operations and maintenance	206,730	178,743	173,019
Administration	44,438	38,761	33,790
Law enforcement	20,221	19,179	18,017
Environmental—net	<u>8,889</u>	<u>5,117</u>	<u>(1,262)</u>
Total operating expenses before depreciation	<u>280,278</u>	<u>241,800</u>	<u>223,564</u>
NET OPERATING INCOME BEFORE DEPRECIATION	208,718	219,346	224,885
DEPRECIATION	<u>144,208</u>	<u>141,588</u>	<u>140,190</u>
OPERATING INCOME	<u>64,510</u>	<u>77,758</u>	<u>84,695</u>
NONOPERATING INCOME (EXPENSE):			
Ad valorem tax levy revenue	75,680	68,617	62,691
Passenger facility charges revenue and related interest income	62,770	63,114	59,141
Customer facility charges revenue and related interest income	23,534	22,570	17,188
Grants and donations	52,436	94,888	127,524
Investment income—net	35,813	57,195	28,895
Revenue and capital appreciation bond interest expense	(105,063)	(113,011)	(101,491)
Passenger facility charges revenue bond interest expense	(11,412)	(11,844)	(12,258)
General obligation bond interest expense—net	(16,971)	(15,621)	(15,754)
Public expense	(27,494)	(8,654)	(11,027)
Other income (expense)—net	<u>848</u>	<u>(29,588)</u>	<u>(38,584)</u>
Total nonoperating income—net	<u>90,141</u>	<u>127,666</u>	<u>116,325</u>
INCREASE IN NET ASSETS	154,651	205,424	201,020
TOTAL NET ASSETS:			
Beginning of year, as restated (Note 1)	<u>2,485,263</u>	<u>2,284,556</u>	<u>2,083,536</u>
End of year	<u>\$ 2,639,914</u>	<u>\$ 2,489,980</u>	<u>\$ 2,284,556</u>

See notes to financial statements.

PORT OF SEATTLE

ENTERPRISE FUND

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(In thousands)

	2008	2007	2006
OPERATING ACTIVITIES:			
Cash received from customers	\$ 469,363	\$ 473,577	\$ 436,152
Cash paid to suppliers for goods and services	(91,170)	(88,825)	(114,165)
Cash paid to employees for salaries, wages, and benefits	(162,668)	(151,260)	(146,725)
Operating grant and contract revenues	12,140	5,035	5,643
Recovery receipts	13,667	2,920	3,419
Other	5,000	(1,254)	2,332
Net cash provided by operating activities	<u>246,332</u>	<u>240,193</u>	<u>186,656</u>
NONCAPITAL AND RELATED FINANCING ACTIVITIES:			
Public expense disbursements	(3,459)	(6,472)	(11,027)
Ad valorem tax levy receipts	75,397	68,603	62,703
Receipts from implicit financing	2,798		5,802
Net cash provided by noncapital and related financing activities	<u>74,736</u>	<u>62,131</u>	<u>57,478</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuance and sale of revenue and fuel hydrant bonds	200,000	240,163	168,720
Proceeds from issuance of commercial paper	28,860	90,940	162,890
Proceeds from issuance and sale of general obligation (GO) bonds			7,729
Proceeds used for refunding of revenue and GO bonds	(199,964)		(187,029)
Acquisition and construction of capital assets	(335,033)	(398,059)	(457,533)
Principal payments on revenue bonds, PFC bonds, GO bonds, and commercial paper	(150,160)	(143,695)	(146,090)
Interest payments on revenue and fuel hydrant bonds, PFC bonds, GO bonds, and commercial paper	(165,437)	(168,863)	(158,776)
Proceeds from sale of capital assets	11,008	344	288
Receipts from grants and donations	57,016	91,585	144,203
Passenger facility charges receipts	60,539	60,068	58,059
Customer facility charges receipts	20,749	19,665	15,486
Net cash used in capital and related financing activities	<u>(472,422)</u>	<u>(207,852)</u>	<u>(392,053)</u>
INVESTING ACTIVITIES:			
Purchases of investment securities	(594,090)	(623,600)	(282,359)
Proceeds from sales and maturities of investments	676,508	497,273	448,573
Interest received on investments	27,604	34,267	29,927
Interest paid on securities lending	(3,083)	(8,612)	
Interest income on securities lending	3,398	9,019	
Cash collateral (remittance of) receipts from securities lending	(319,521)	319,521	
Net cash (used in) provided by investing activities	<u>(209,184)</u>	<u>227,868</u>	<u>196,141</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(360,538)	322,340	48,222
CASH AND CASH EQUIVALENTS:			
Beginning of year	<u>413,893</u>	<u>91,553</u>	<u>43,331</u>
End of year	<u>\$ 53,355</u>	<u>\$ 413,893</u>	<u>\$ 91,553</u>

See notes to financial statements.

(Continued)

PORT OF SEATTLE

ENTERPRISE FUND

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(In thousands)

	2008	2007	2006
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$ 64,510	\$ 77,758	\$ 84,695
Miscellaneous nonoperating income (expense)	5,000	(1,254)	2,332
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	144,208	141,588	140,190
Decrease (increase) in assets:			
Accounts and contracts receivable	(382)	2,377	774
Materials and supplies, prepayments, and other	10,077	7,811	(8,984)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	2,350	(6,392)	(25,538)
Payroll and taxes payable	7,008	1,587	(2,446)
Accrued environmental expenses	11,910	(2,505)	1,443
Lease deposits and customer advances	(6,187)	12,316	(20,014)
Current security fund liability	754	855	14,204
Other postemployment benefit obligation	7,084	6,052	
Net cash provided by operating activities	<u>\$ 246,332</u>	<u>\$ 240,193</u>	<u>\$ 186,656</u>
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets through refunding Series 1999A Special Facilities Revenue Bonds	\$	\$	\$ 49,521
Transfer of ownership of the Third Runwy Navigational Aids System to Federal Aviation Administration (FAA)	24,035		
See notes to financial statements.			(Concluded)

PORT OF SEATTLE

WAREHOUSEMEN'S PENSION TRUST FUND

STATEMENTS OF NET ASSETS

AS OF DECEMBER 31, 2008 AND 2007

(In thousands)

	2008	2007
ASSETS:		
Cash and cash equivalents	\$ 198	\$ 202
Investments—fair value:		
Common stock	4,261	7,892
Corporate bonds	3,898	4,860
Other assets	<u>151</u>	<u>148</u>
Total assets	<u>8,508</u>	<u>13,102</u>
LIABILITIES—Accounts payable	<u>(6)</u>	<u>(8)</u>
NET ASSETS—Held in trust for pension benefits and other purposes (A schedule of funding progress is presented on page 47)	<u>\$ 8,502</u>	<u>\$ 13,094</u>

See notes to financial statements.

PORT OF SEATTLE

WAREHOUSEMEN'S PENSION TRUST FUND

STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006 (In thousands)

	2008	2007	2006
ADDITIONS:			
Employer contributions	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>\$ 1,500</u>
Investment earnings:			
Interest		1	2
Dividends	428	431	372
(Loss) Gain on investments sold	(504)	630	126
Net (decrease) increase in fair value of investments	(3,703)	(211)	900
Less investment expense	<u>(17)</u>	<u>(28)</u>	<u>(16)</u>
Net investment (loss) earnings	<u>(3,796)</u>	<u>823</u>	<u>1,384</u>
Total (deductions) additions	<u>(2,296)</u>	<u>2,323</u>	<u>2,884</u>
DEDUCTIONS:			
Benefits	2,176	2,141	2,117
Administrative expenses	41	40	40
Professional fees	<u>79</u>	<u>62</u>	<u>48</u>
Total deductions	<u>2,296</u>	<u>2,243</u>	<u>2,205</u>
CHANGE IN NET ASSETS	(4,592)	80	679
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES:			
Beginning of year	<u>13,094</u>	<u>13,014</u>	<u>12,335</u>
End of year	<u>\$ 8,502</u>	<u>\$ 13,094</u>	<u>\$ 13,014</u>

See notes to financial statements.

PORT OF SEATTLE

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—The Port of Seattle (the “Port”) is a municipal corporation organized on September 5, 1911, through enabling legislation by consent of the voters within the Port district. In 1942, the local governments in King County selected the Port to operate the Seattle-Tacoma International Airport (the “Airport”). The Port is considered a special purpose government with a separately elected commission of five members and is legally separate and fiscally independent of other state or local governments. The Port has no stockholders or equity holders. All revenues or other receipts must be disbursed in accordance with provisions of various statutes, applicable grants, and agreements with the holders of its bonds.

Reporting Entity—The Port reports the following funds: the Enterprise Fund accounts for all activities and operations of the Port except for the activities included within the Warehousemen’s Pension Trust Fund.

The Enterprise Fund is used to account for operations and activities that are financed at least in part by fees or charges to external users. The Enterprise Fund comprises three operating divisions. The Aviation Division (“Aviation”) serves the predominant air travel needs of a five-county area. The Airport has 17 U.S.-flag passenger air carriers (including regional and commuter air carriers) and 11 foreign-flag passenger air carriers providing nonstop service from the Airport to 92 cities, including 20 foreign cities. The Seaport Division (“Seaport”) focuses primarily on containerized cargo and passenger marine terminals as well as industrial property connected with maritime businesses. International containerized cargo arriving by ship is transferred to various modes of land transportation destined for other regions of the country. Domestic containerized cargo arriving by various modes of land transportation is transferred to outbound ships for distribution to other countries around the world. The Real Estate Division (“Real Estate”) manages moorage facilities, leases commercial and industrial buildings/properties, and plans and facilitates the development of selected real estate assets. All of these divisions have labor workforces subject to various collective bargaining agreements. These workforces support the operations and maintenance of the divisions.

The Warehousemen’s Pension Trust Fund accounts for the assets of the employee benefit plan held by the Port in a trustee capacity. On May 25, 2004, the Port became the sole administrator for the Warehousemen’s Pension Plan and Trust (the “Plan”). This plan was originally established to provide pension benefits for the employees at the Port’s warehousing operations at Terminal 106. In late 2002, the Port terminated all warehousing operations following the departure of the principal customer who operated the facility. As of May 25, 2004, the Plan is a governmental plan maintained and operated solely by the Port.

For financial reporting purposes, component units are entities which are legally separate organizations for which the Port is financially accountable, and other organizations for which the nature and significance of their relationship with the Port are such that exclusion would cause the Port’s financial statements to be misleading or incomplete. Based on these criteria, the following is considered as a component unit of the Port’s reporting entity.

The Industrial Development Corporation (“IDC”) is a blended component unit of the Port and is included within the accompanying financial statements. The IDC is a special purpose government with limited powers and governed by a Board of Directors, which is comprised of the same members as the Port Commission. The IDC has issued tax-exempt nonrecourse revenue bonds to finance industrial development for acquiring, constructing, and renovating transshipment and manufacturing facilities within the corporate boundaries of the Port. These revenue bonds are secured by revenues derived from the industrial development facilities funded by the revenue bonds and leased to the IDC. The Port has not recorded these obligations, or the related assets, on the accompanying financial statements of the Port, as the Port has no obligation for the outstanding bonds beyond what is provided in the leasing arrangements. A copy of the separate financial statements for IDC may be obtained at:

Port of Seattle
Pier 69,
P.O. Box 1209
Seattle, WA 98111

Internet Address: www.portseattle.org

Basis of Accounting—The Port is accounted for on a flow of economic resources measurement focus. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that governments’ proprietary activities apply all GASB pronouncements as well as the pronouncements of the Financial Accounting Standards Board (“FASB”) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As allowed by GASB Statement No. 20, the Port has elected to implement FASB Statements and Interpretations issued after November 30, 1989. The more significant of the Port’s accounting policies are described below.

Use of Estimates—The preparation of the Port’s financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used to record environmental reserves, litigated and non-litigated loss contingencies, and insurance recoveries; allowances for doubtful accounts; grants-in-aid receivable; arbitrage liabilities; and other postemployment benefits. Actual results could differ from those estimates.

Significant Risks and Uncertainties—The Port is subject to certain business and casualty risks that could have a material impact on future operations and financial performance. Business risks include economic conditions, collective bargaining disputes, security, litigation, Federal, State, and local government regulations, and changes in law. The Port has a comprehensive risk management program that financially protects the Port against loss from adverse casualty events to its property, operations, third-party liabilities, and employees. The Port carries excess commercial insurance to cover many of these risks of loss. The excess commercial insurance coverage is above a self-insured retention that the Port maintains. The Port is a qualified self-insurer in the State and administers its own worker compensation claims. Claims or the amount of settlements have not exceeded its insurance coverage in each of the past three years.

Airline Rates and Charges—Under the terms of the signatory airline lease and operating agreements (“SLOA”) effective from January 1, 2006 through December 31, 2012, the Port sets airline rates and charges using a hybrid-compensatory methodology. Under SLOA, rates for the landing fee and terminal rents are set to recover the operating and capital costs for the airfield and the terminal cost centers, respectively. Some of the key provisions in this agreement include the following: cost recovery formulas permitting the Port to charge the airlines 100% of annual debt service allocated to the airlines (unless the Port determines in its sole discretion that a charge above 100% and up to 125% of annual debt service is necessary to maintain the total Airport revenue bond coverage at 1.25 times the sum of the annual debt service).

Ad Valorem Tax Levy Revenue—Ad valorem taxes received by the Port are utilized for the acquisition and construction of facilities, for the payment of principal and interest on general obligation bonds issued for the acquisition or construction of facilities, for contributions to regional freight mobility improvement, for environmental expenses, and for public expenses. The Port includes ad valorem tax revenues and interest on general obligation bonds as nonoperating income in the statements of revenues, expenses, and changes in net assets.

The King County (“County”) Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually on January 1 on property values listed as of the prior year. The lien date is January 1. Assessed values are established by the County Assessor at 100% of fair market value. A re-evaluation of all property is required every two years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed daily to the Port by the County Treasurer.

Passenger Facility Charges—As determined by applicable Federal legislation, passenger facility charges (“PFC”) generate revenue to be expended by the Port for eligible capital projects and the payment of principal and interest on specific revenue bonds. PFC revenues received from the airlines are recorded as nonoperating income in the statements of revenues, expenses, and changes in net assets based upon passenger enplanement.

Customer Facility Charges—As determined by applicable State legislation, customer facility charges (“CFC”) generate revenue to be expended by the Port for eligible capital projects and the payment of principal and interest on specific revenue bonds. CFC revenues received from the rental car companies are recorded as nonoperating income in the statements of revenues, expenses, and changes in net assets.

Federal Grants-in-Aid—The Port receives Federal grants-in-aid funds on reimbursement basis for all divisions, mostly related to construction of Airport and Seaport facilities and other capital activities along with operating grants to perform enhancements in both Airport and Seaport security.

Land, Facilities, and Equipment—Land, facilities, and equipment are stated at cost, less accumulated depreciation. Costs applicable to noise damage remedies and air rights, together with the cost of litigation, generally are capitalized as a cost of the property. The Port’s policy is to capitalize all asset additions greater than \$20,000 and with an estimated life of more than three years. The Port capitalizes interest during construction until the asset is placed into service, based on average construction expenditures and average actual debt service rates for bond funded construction excluding externally restricted acquisition of specified qualified assets financed with grants or proceeds from tax-exempt debt. For tax-exempt debt externally restricted for the acquisition of specified qualifying assets, the Port capitalizes the difference between interest expense on debt and interest earnings on reinvested debt proceeds until the asset is placed into service. Depreciation is computed on a straight-line basis. Buildings and improvements are assigned lives of 30 to 50 years, equipment 3 to 20 years, and furniture and fixtures 5 to 10 years. The Port periodically reviews its long-lived assets for impairment. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly.

Materials and Supplies—Materials and supplies are recorded at the lower of cost or market. The Port's policy is to expense materials and supplies when used in operations and to capitalize amounts used in capital projects as construction work in progress.

Employee Benefits—Eligible Port employees accrue paid time off and extended illness leave on every straight-time hour worked. The paid time off accrual rates increase based on length of service. A stipulated maximum of paid time off leave may be accumulated by employees while no maximum amount of extended illness leave can be accumulated. Terminated employees are entitled to be paid for unused paid time off and, under certain conditions, a portion of unused extended illness leave.

The Port also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is available to all salaried employees of the Port and to wage employees as negotiated. In 1998, the Port placed its deferred compensation plan assets in a separate trust as required under the Small Business Job Protection Act of 1996. The trust requirements were met by establishing a qualifying insurance contract, and as such, the related assets and liabilities are not included in the Port's financial statements.

On an annual basis, the Port has the option of offering a 401(a) supplemental savings plan for salaried employees. The Plan establishes a 401(a) tax-deferred savings account for each eligible employee, which increases with tenure. The Port's flat contribution amount ranges from \$500 to \$1,100 annually based on years of service which was suspended since 2007. Additionally, the Port matches employee contributions to the Plan dollar-for-dollar up to a fixed maximum of \$2,200. This matching contribution also increases with tenure. Employees are able to direct the 401(a) funds to any investment options available under the Plan.

Investments and Cash Equivalents—All short-term investments with a maturity of three months or less at date of purchase are considered to be cash equivalents. Investments are carried at fair value plus accrued interest receivable. Fair values are determined based on quoted market rates. Gains or losses due to market valuation changes are recognized in the statements of revenues, expenses, and changes in net assets.

Accounts Receivable and Allowance for Doubtful Accounts—Accounts receivable are recorded for invoices issued to customers in accordance with our contractual arrangements. The allowance for doubtful accounts is based on specific identification of troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written-off against the allowance when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Environmental Reserves—The Port's policy requires accrual of pollution remediation obligation amounts when (a) one of the following specific obligating events is met and (b) the amount can be reasonably estimated. Obligating events include: imminent endangerment to the public; permit violation; named as party responsible for sharing costs; named in a lawsuit to compel participation in pollution remediation; or commenced or legally obligated to commence pollution remediation. Potential cost recoveries such as insurance proceeds, if any, are evaluated separately from the Port's pollution remediation obligation. Costs incurred for pollution remediation obligation are recorded as environmental expenses unless the expenditures meet specific criteria that allow them to be capitalized. Capitalization criteria include: preparation of property in anticipation of a sale; preparation of property for use if the property was acquired with known or suspected pollution that was expected to be remediated; performance of pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment; or acquisition of property, plant, and equipment that have a future alternative use not associated with pollution remediation efforts.

Debt Discount, Premium, and Issuance Costs—Debt discounts, premiums, and issuance costs relating to the issuance of bonds are amortized over the lives of the related bonds using the effective interest method.

Refunds of Debt—The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

It is the Port's practice when bonds are defeased that the proceeds of the new bonds are placed in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not recorded in the financial statements. The amount required to be held in trust as of December 31, 2008 and 2007 related to refundings of debt are detailed below (in thousands):

	2008	2007
2006 Refunding		
Series 2000A General obligation bonds	\$ 7,300	\$ 7,300
Series 2000A Revenue bonds	130,690	130,690
Series 1999A Special facilities revenue bonds (Terminal 18 Project)	59,740	59,740
2004 Refunding		
Series 1999A Revenue bonds		13,340
2003 Refunding		
Series 1999B Revenue bonds	3,350	3,350
Series 1999C Revenue bonds	<u>25,445</u>	<u>25,445</u>
Total	<u>\$ 226,525</u>	<u>\$ 239,865</u>

Payments in Lieu of Taxes—The Port, on behalf of the State of Washington, collects applicable leasehold taxes from its tenants. The taxes are a pass-through to the State and are, therefore, not reflected as an expense or revenue by the Port.

Net Assets—As required by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, net assets (equity) have been classified on the statement of net assets into the following categories:

- Invested in capital assets—net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted: Net assets subject to externally imposed stipulations on their use.
- Unrestricted: All remaining net assets that do not meet the definition of “invested in capital assets—net of related debt” or “restricted.”

When both restricted and unrestricted resources are available for the same purpose, restricted assets are considered to be used first over unrestricted assets.

Nonexchange Transactions—GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, establishes uniform revenue and expense recognition criteria and financial reporting standards regarding when (i.e., in which fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources. When the Port receives value without directly giving equal value in return, these transactions, which include taxes, intergovernmental grants, entitlements, other financial assistance, and nongovernmental contractual agreements are reported as revenue. When the Port gives value without directly receiving equal value in return, these transactions, which include expenses for district schools and infrastructure improvements to the State and region in conjunction with other agencies, are reported as public expense.

Operating and Nonoperating Revenues—Fees for services, rents, and charges for the use of Port facilities, Airport landing fees, operating grants, and other revenues generated from operations are reported as operating revenue. Ad valorem tax levy revenues, nonoperating grants and contributions, PFCs, CFCs, and other revenues generated from nonoperating sources are classified as nonoperating.

Recently Issued Accounting Pronouncements—In December 2006, the GASB issued Statement No.49 (“GASB 49”), *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. Liabilities and expenses would be estimated using an "expected cash flows" measurement technique. This statement also requires governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements. This statement is effective for periods beginning after December 15, 2007. The Port has adopted this new pronouncement in the current year. The environmental reserves liabilities are re-measured at the beginning of January 1, 2008 based on this new standard and the beginning balance of net assets is restated. The Port does not have sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods. The restatement of the beginning balance of net assets is summarized as follows (in thousands).

Net Assets at December 31, 2007 as previously reported	\$ 2,489,980
Less adjustments for adoption of GASB 49	<u>4,717</u>
Net Assets at January 1, 2008, as restated	<u>\$ 2,485,263</u>

The required disclosures are presented in Note 10 in the accompanying notes to the financial statements.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which provides comprehensive guidance on identifying, accounting for, and reporting intangible assets. This statement requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. This statement establishes a specified-conditions approach for recognizing internally generated intangible assets. It also provides guidance on recognizing internally generated computer software and establishes specific guidance for the amortization of intangible assets. This statement is effective for periods beginning after June 15, 2009. The Port is currently evaluating the impact of the adoption of this standard on our financial statements.

In September 2006, the FASB issued Statement No.157, *Fair Value Instruments* (“SFAS 157”), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (“FSP FAS 157-2”). In accordance with FSP FAS 157-2, the Port will defer the adoption of SFAS 157 for its nonfinancial assets and nonfinancial liabilities, except those items recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until January 1, 2009. While the adoption of this statement relating to nonfinancial assets and nonfinancial liabilities is not likely to have a material effect on the Port's financial statements, the impact of adopting the new rule to these types of transactions are depending on events in future periods, and as such, an estimate of the impact cannot be determined. The Port has adopted this new pronouncement in the current year for its recurring transactions. The required disclosures are presented in Note 13 in the accompanying notes to the financial statements.

Reclassifications and Presentation—Certain reclassifications of prior years' balances have been made to conform with the current year presentations. Such reclassifications did not affect total operating revenues, operating income, increase in net assets, total current or long-term assets or liabilities or net cash provided by operating activities.

2. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Deposits—All deposits are either covered by the Federal Deposit Insurance Corporation (“FDIC”) or the Public Deposit Protection Commission of the State of Washington (“PDPC”). The PDPC is a statutory authority under Chapter 39.58 RCW. It constitutes a multiple financial institution collateral pool that can make pro rata assessments to all public depositories with the State up to 10% of all their public deposits. There is no current provision for PDPC to make additional pro rata assessments if needed to cover a loss. Therefore, in accordance with GASB, *Codification of Governmental Accounting and Financial Reporting Standards*, Section 150.110, PDPC protection is of the nature of collateral, not of insurance. Pledged securities under the PDPC collateral pool are held by the Port’s agent in the name of the Port.

Investments—Statutes authorize the Port to invest in savings or time accounts in designated qualified public depositories or in certificates, notes, or bonds of the United States. The Port is also authorized to invest in other obligations of the United States or its agencies or of any corporation wholly owned by the government of the United States. Statutes also authorize the Port to invest in banker’s acceptances purchased on the secondary market, in Federal Home Loan Bank notes and bonds, Federal Farm Credit Bank consolidated notes and bonds, Federal Home Loan Mortgage Corporation bonds and notes, and Federal National Mortgage Association notes, bonds, debentures and guaranteed certificates of participation or the 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 System. The Port can also invest in commercial paper within the policies established by the State Investment Board, certificates of deposit with qualified public depositories, local and state general obligations, and revenue bonds issued by Washington State governments that are rated at least “A” by a nationally recognized rating agency. Additionally, the following mortgage backed securities of these agencies are allowed for purchase including: (1) collateralized mortgage pools having a stated final maturity not exceeding the maturity limits of the Port’s investment policy and (2) planned amortization and sequential pay classes of collateralized mortgage obligations collateralized by 15-year agency-issued pooled mortgage securities and having a stated final maturity not exceeding the maturity limits of the Port’s investment policy.

The Port’s investment policy limits the maximum maturity of any security purchased to ten years. The Port’s investment policy allows for 100% of the portfolio to be invested in United States Treasury bills, certificates, notes, and bonds. The Port’s investment policy limits government agency securities to 60%, agency mortgage-backed securities to 10%, certificates of deposit to 15% but no more than 5% per issuer, banker’s acceptances to 20% but no more than 5% per bank, commercial paper to 20% but no more than 3% per issuer, overnight repurchase agreements to 15%, term only repurchase agreements to 25%, reverse repurchase agreements to 5% and agency discount notes to 20% of the portfolio. Banker’s acceptances can only be purchased on the secondary market and are limited to the largest 50 world banks listed each July in the American Banker. These banks must meet tier one and tier two capital standards. Commercial paper must be rated no lower than A1/P1 and meet Washington State Investment Board Guidelines.

The Port’s investment policy allows entering into repurchase and reverse repurchase agreements with 60 days or less maturities. The Port’s investment policy requires that securities underlying repurchase agreements must have a market value of at least 102% of the cost of the repurchase agreement with investment terms of less than 30 days, and 105% for terms longer than 30 days. Collateral must be “marked to market” on a daily basis. When used for yield enhancement rather than cash management purposes, only “matched book” transactions will be utilized, meaning that the maturity date of the acquired security is identical to the end date of the reverse repurchase transaction. Reverse repurchase agreements will only be executed with Primary Government Bond Dealers.

As of December 31, 2008 and 2007, restricted investments—bond funds and other were \$259,906,000 and \$451,099,000, respectively, which generally represents unspent bond proceeds designated for capital improvements to the Port's facilities, including capitalized interest, and satisfying debt service reserve fund requirement, along with cash receipts from PFCs, CFCs and current security fund liability maintained under SLOA.

The tables below identify the type of investments, concentration of investments in any one issuer, and maturities of the Port Investment Pool as of December 31, 2008 and 2007 (in thousands). These tables do not address investments of debt proceeds held by bond trustees. As of December 31, 2008 and 2007, the Port's investment pool had 3.1% and 5.1% of the portfolio, respectively, invested in repurchase agreements collateralized with "AAA" rated agency securities and the remainder of the pool invested in "AAA" rated agency and treasury securities.

Investment Type	Fair Value	Maturities (in Years)			Percentage of Total Portfolio
		Less Than 1	1-3	More Than 3	
2008					
Repurchase Agreements *	\$ 22,056	\$ 22,056	\$	\$	3.1 %
Federal Agencies Securities:					
Federal Farm Credit Banks	104,628	14,931	10,172	79,525	14.9 %
Federal Home Loan Bank	192,719	14,954	20,459	157,306	27.5 %
Federal Home Loan Mortgage Corporation	48,037		5,376	42,661	6.8 %
Federal National Mortgage Association	164,143	49,862		114,281	23.4 %
United States Treasury Notes	50,359	50,359			7.2 %
United States Treasury Bills	<u>119,978</u>	<u>119,978</u>			<u>17.1 %</u>
Total Portfolio	701,920	272,140	36,007	393,773	100.0 %
Accrued interest receivable	<u>6,260</u>				
Total cash, cash equivalents, and investments	<u>\$ 708,180</u>				
Percentage of Total Portfolio	100.0 %	38.8 %	5.1 %	56.1 %	
2007					
Repurchase Agreements *	\$ 41,198	\$ 41,198	\$	\$	5.1 %
Commercial Paper	65,893	65,893			8.1 %
Federal Agencies Securities:					
Federal Farm Credit Banks	73,619	14,925	38,363	20,331	9.1 %
Federal Home Loan Bank	200,276	9,981	88,813	101,482	24.8 %
Federal Home Loan Mortgage Corporation	245,308	69,538	50,047	125,723	30.4 %
Federal National Mortgage Association	130,575	59,278		71,297	16.2 %
United States Treasury Notes	<u>50,922</u>		<u>50,922</u>		<u>6.3 %</u>
Total Portfolio	807,791	260,813	228,145	318,833	100.0 %
Accrued interest receivable	<u>6,878</u>				
Total cash, cash equivalents, and investments	<u>\$ 814,669</u>				
Percentage of Total Portfolio	100.0 %	32.3 %	28.2 %	39.5 %	

* Included cash and cash equivalents balances except for cash collateral from securities lending (applicable only in 2007).

Investment Authorized by Debt Agreements—Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements and subject to compliance with State law. During May 2003, the Port issued Fuel Hydrant Special Facility Revenue bonds in the amount of \$121,140,000 to pay for all or a portion of the costs of the acquisition, design, and construction by the Port of jet aircraft fuel storage and delivery facilities at the Airport. The fuel hydrant facility financing is administered by Wells Fargo Bank Northwest, National Association (“Trustee”).

The tables below identify the type of investments, concentration of investments in any one issuer, and maturities of the Fuel Hydrant Investment Pool as of December 31, 2008 and 2007 (in thousands). As of December 31, 2008 and 2007, 39.0% and 46.5%, respectively, of the Fuel Hydrant Investment Pool was invested in “AAA” rated government agency securities. The remaining amount was invested in 2a7 qualified Wells Fargo Government Institutional Money Market Fund with maturity limits no longer than 13 months. Wells Fargo Government Institutional Money Market Fund holds securities authorized by the statutes, which means at least 80% of the investments are invested in United States Government obligations, including repurchase agreements collateralized by United States Government obligations. The remainder of the Wells Fargo Government Institutional Money Market Fund was invested in high-quality short-term money market instruments.

Investment Type	Fair Value	Maturities (in Years)			Percentage of Total Portfolio
		Less Than 1	1-3	More Than 3	
2008					
Wells Fargo Government Institutional Money Market Funds	\$ 6,305	\$ 6,305	\$	\$	61.0 %
Federal Agencies Securities:					
Federal National Mortgage Association	<u>4,031</u>	<u> </u>	<u> </u>	<u>4,031</u>	<u>39.0 %</u>
Total investment	10,336	6,305		4,031	100.0 %
Accrued interest receivable	<u>69</u>				
Total cash, cash equivalents, and investments	<u>\$ 10,405</u>				
Percentage of Total Portfolio	100.0 %	61.0 %	0.0 %	39.0 %	
2007					
Wells Fargo Government Institutional Money Market Funds	\$ 10,270	\$ 10,270	\$	\$	53.5 %
Federal Agencies Securities:					
Federal National Mortgage Association	<u>8,938</u>	<u>8,938</u>	<u> </u>	<u> </u>	<u>46.5 %</u>
Total investment	19,208	19,208			100.0 %
Accrued interest receivable	<u>121</u>				
Total cash, cash equivalents, and investments	<u>\$ 19,329</u>				
Percentage of Total Portfolio	100.0 %	100.0 %	0.0 %	0.0 %	

Interest Rate Risk—Interest rate risk is the risk that an investment's fair value decreases as market interest rate increases. Through its investment policy, the Port manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Port's Investment Pool. The portfolio is managed similar to a short-term fixed income fund. The duration of the portfolio is currently targeted at two years. Securities in the portfolio cannot have a maturity longer than ten years. As of December 31, 2008 and 2007, the effective duration of the Port's Investment Pool portfolio was approximately eleven months and thirteen months, respectively.

The Fuel Hydrant Investment Pool is decreasing over time as the proceeds from the bonds are held by the Trustee to make monthly debt service payments, satisfy the debt service reserve fund requirement, pay other fees associated with the bonds, including the Trustee fee, and are available to the Port on a reimbursement basis as funds are spent for construction. As of December 31, 2008, and 2007, the effective duration of the Fuel Hydrant Investment Pool was fourteen days and three months, respectively.

Custodial Credit Risk—Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Port will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. By the Port's policy, all security transactions, including repurchase agreements, are settled "delivery versus payment." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the Port's safekeeping bank.

As of December 31, 2008 and 2007, the bank balance of \$6,305,000 and \$10,270,000, respectively, in the Fuel Hydrant Investment Pool was invested in the Wells Fargo Government Institutional Money Market Fund, was uninsured, and was registered in the name of the Trustee.

Securities Lending—State statutes permit the Port to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Port, which has contracted with a lending agent to lend securities owned by the Port, earns a fee for this activity. The lending agent lends securities and receives collateral, which can only be in the form of cash. The collateral, which must be valued at 102% of the fair value of the loaned securities, is priced daily and, if necessary action is taken to maintain the collateralization level at 102%. The cash is invested by the lending agent in securities, which comply with the Port's investment policy. During 2008, the Port's investment parameters for the lending agent became more restrictive allowing the lending agent to reinvest in treasury agencies securities only. The securities underlying the cash collateral are held by the Port's custodian. Since the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. There are no restrictions on the amount of securities that can be lent. The Port investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the Port.

The Port reports securities lent (the underlying securities) as assets in the statement of net assets. Cash received as collateral on securities lending transactions and investment made with that cash are reported as assets. Cash collateral received resulting from these transactions is reported as liability in the statement of net assets.

No securities were lent as of December 31, 2008, therefore, no cash received as collateral on securities lending are reported as asset and liability in the statement of net assets at December 31, 2008.

The following table presents the fair value of underlying securities and the value of collateral held at December 31, 2007 (in thousands).

Type of Securities Lent	Fair Value of Underlying Securities	Cash Collateral
Federal Agencies Securities:		
Federal Home Loan Bank	\$ 50,000	\$ 51,688
Federal Home Loan Mortgage Corporation	115,188	118,231
Federal National Mortgage Association	95,056	97,269
United States Treasury Notes	<u>50,744</u>	<u>52,333</u>
Total	<u>\$ 310,988</u>	<u>\$ 319,521</u>

During fiscal year 2008 and 2007, the Port had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the Port. Furthermore, the contract with the lending agent requires them to indemnify the Port if the borrowers fail to return the securities (and if collateral is inadequate to replace the securities lent) or if the borrower fails to pay the Port for income distribution by the securities' issuers while the securities are on loan. There were no violations of legal or contractual provisions, nor any losses resulting from default of a borrower or lending agent during 2008 and 2007.

3. CAPITAL ASSETS

Capital assets consist of the following at December 31, 2008 and 2007 (in thousands):

	Beginning of Year	Additions	Retirements	End of Year
2008				
Capital assets, not being depreciated:				
Land and air rights	\$ 1,337,320	\$ 543,588	\$ (812)	\$ 1,880,096
Art collections and others	<u>7,196</u>	<u>285</u>	<u>(3)</u>	<u>7,478</u>
Total capital assets not being depreciated	<u>1,344,516</u>	<u>543,873</u>	<u>(815)</u>	<u>1,887,574</u>
Capital assets being depreciated:				
Facilities and improvements	3,671,613	466,898	(46,451)	4,092,060
Equipment, furniture, and fixtures	<u>316,979</u>	<u>21,100</u>	<u>(11,975)</u>	<u>326,104</u>
Total capital assets being depreciated	<u>3,988,592</u>	<u>487,998</u>	<u>(58,426)</u>	<u>4,418,164</u>
Total capital assets	<u>5,333,108</u>	<u>1,031,871</u>	<u>(59,241)</u>	<u>6,305,738</u>
Less accumulated depreciation for:				
Facilities and improvements	(962,949)	(121,399)	35,388	(1,048,960)
Equipment, furniture, and fixtures	<u>(194,432)</u>	<u>(22,809)</u>	<u>11,179</u>	<u>(206,062)</u>
Total accumulated depreciation	<u>(1,157,381)</u>	<u>(144,208)</u>	<u>46,567</u>	<u>(1,255,022)</u>
Construction work in progress	<u>993,574</u>	<u>364,138</u>	<u>(1,063,077)</u>	<u>294,635</u>
Total capital assets—net	<u>\$ 5,169,301</u>	<u>\$ 1,251,801</u>	<u>\$ (1,075,751)</u>	<u>\$ 5,345,351</u>
2007				
Capital assets, not being depreciated:				
Land and air rights	\$ 1,285,785	\$ 54,704	\$ (3,169)	\$ 1,337,320
Art collections and others	<u>6,342</u>	<u>854</u>	<u></u>	<u>7,196</u>
Total capital assets not being depreciated	<u>1,292,127</u>	<u>55,558</u>	<u>(3,169)</u>	<u>1,344,516</u>
Capital assets being depreciated:				
Facilities and improvements	3,486,518	205,911	(20,816)	3,671,613
Equipment, furniture, and fixtures	<u>312,476</u>	<u>18,973</u>	<u>(14,470)</u>	<u>316,979</u>
Total capital assets being depreciated	<u>3,798,994</u>	<u>224,884</u>	<u>(35,286)</u>	<u>3,988,592</u>
Total capital assets	<u>5,091,121</u>	<u>280,442</u>	<u>(38,455)</u>	<u>5,333,108</u>
Less accumulated depreciation for:				
Facilities and improvements	(847,158)	(119,298)	3,507	(962,949)
Equipment, furniture, and fixtures	<u>(185,325)</u>	<u>(22,290)</u>	<u>13,183</u>	<u>(194,432)</u>
Total accumulated depreciation	<u>(1,032,483)</u>	<u>(141,588)</u>	<u>16,690</u>	<u>(1,157,381)</u>
Construction work in progress	<u>851,193</u>	<u>429,721</u>	<u>(287,340)</u>	<u>993,574</u>
Total capital assets—net	<u>\$ 4,909,831</u>	<u>\$ 568,575</u>	<u>\$ (309,105)</u>	<u>\$ 5,169,301</u>

For the year ended December 31, 2008 and 2007, \$1,581,000 and \$21,381,000 was recorded in other expense—net, respectively, related to demolition costs, impairments, and asset sales. For the Aviation Division, \$8,825,000 and \$6,704,000 relate to losses from demolition in 2008 and 2007, respectively. For the Seaport Division, \$1,896,000 and \$13,926,000 relates to losses from demolition in 2008 and 2007, respectively, including an impairment loss of \$3,082,000 on Terminal 25 due to approval of change in use in 2007. For the Real Estate Division, \$9,265,000 relates to gain from sale of Pier 48 to Washington State Department of Transportation in 2008 while \$778,000 relates to losses from demolition costs in 2007.

4. ACCOUNTING FOR LEASES

The Port enters into operating leases with tenants for the use of properties at various locations, including Seaport Division terminal land, facilities, and equipment; Aviation Division space and land rentals with minimum annual guarantees; and Real Estate Division commercial and industrial properties, industrial fishing terminals as well as recreational marinas. As the leased properties involved are in part used by internal Port operations, it is not reasonably determinable to segregate the value of the assets associated with producing minimum rental income from the value of the assets associated with an entire facility.

Minimum future rental income on noncancelable operating leases on Seaport terminal, Airport facilities and Real Estate properties are as follows (in thousands):

**Years Ending
December 31**

2009	\$ 118,523
2010	68,611
2011	68,163
2012	66,373
2013	72,918
Thereafter	<u>1,585,115</u>
Total	<u>\$ 1,979,703</u>

Effective June 2003, the Port entered into a lease agreement with SeaTac Fuel Facilities LLC in a fuel system lease whereby the members are some of the commercial air carriers currently operating at the Airport. The lessee payments of facilities rent are made directly to a trustee in the amounts and at the times required to pay the principal and premium, if any, and interest on the Special Facility Revenue bonds issued to pay for all or a portion of the costs of the acquisition, design, and construction by the Port of jet aircraft fuel storage and delivery facilities at the Airport. The fuel system is intended to be the exclusive system for storage and delivery to commercial air carriers of jet aircraft fuel at the Airport. The lease, which represents an unconditional obligation of the lessee, extends until the later of July 31, 2033, or the repayment of the 2003 bonds. SeaTac Fuel Facilities LLC was created by the consortium of airlines operating at the Airport for the purpose of entering the lease and managing the fuel hydrant system. The future rental income is based on debt service requirements which are as follows: \$8,040,000 for 2009, \$7,997,000 for 2010, \$7,996,000 for 2011, \$7,996,000 for 2012, \$7,997,000 for 2013, and \$151,253,000 for the years thereafter; these amounts are not included in the schedule above. All special facility lease revenues are restricted and are to be used solely for debt service on the bonds and not for Port operations.

5. LONG-TERM DEBT

The Port's long-term debt consists primarily of tax-exempt bonds. The majority of the Port's outstanding bonds are revenue bonds, which are secured by a pledge of net operating revenues of the Port. Revenue from PFCs is pledged to secure PFC revenue bonds. The Port also issues general obligation ("GO") bonds payable from ad valorem taxes. In connection with the issuance of the tax-exempt bonds, the Port agreed to certain covenants as defined in the resolutions. Outstanding long-term debt as of December 31, 2008, consists of the following (in thousands):

Bond Type (by Bond Issue)	Rates (%)	Maturity Dates	Beginning Balance	Principal Payments and Refundings	Issuance	Ending Balance
General obligation (GO) bonds:						
2000 GO bond	5.1-6.0	2009-2025	\$ 91,110	\$ 3,260	\$	\$ 87,850
2004 GO bond	4.5-5.25	2009-2023	245,095	16,510		228,585
2006 GO bond	3.75-5.0	2011-2029	61,630			61,630
Total			<u>397,835</u>	<u>19,770</u>		<u>378,065</u>
Revenue bonds:						
First lien:						
Series 1996 B	6.0	2008	3,580	3,580		
Series 1998 A	5.0-5.375	2009-2017	30,170	1,365		28,805
Series 2000 B	5.625-6.0	2009-2024	197,325	6,950		190,375
Series 2000 D	5.5-6.0	2009-2011	10,260	1,680		8,580
Series 2001 A	5.0	2024-2031	176,105			176,105
Series 2001 B	5.1-5.625	2009-2024	235,505	8,615		226,890
Series 2001 C	5.5-5.625	2012-2014	12,205			12,205
Series 2001 D	5.75	2009-2017	53,845	4,085		49,760
Series 2003 A	5.0-5.25	2010-2033	188,190			188,190
Series 2003 B	4.25-5.5	2009-2029	160,505	6,630		153,875
Series 2004	4.5-5.75	2009-2017	20,625	1,520		19,105
Series 2007A	3.75-5.0	2016-2019	27,880			27,880
Series 2007B	3.75-5.0	2009-2032	200,115	1,900		198,215
Total			<u>1,316,310</u>	<u>36,325</u>		<u>1,279,985</u>
Intermediate lien:						
Series 2005 A	5.0-5.25	2009-2035	403,095	4,955		398,140
Series 2005 B	5.0	2009	6,135	3,185		2,950
Series 2005 C	5.0	2010-2017	39,590			39,590
Series 2006 A	4.75-5.0	2025-2030	124,625			124,625
Total			<u>573,445</u>	<u>8,140</u>		<u>565,305</u>

(Continued)

Bond Type (by Bond Issue)	Rates (%)	Maturity Dates	Beginning Balance	Principal Payments and Refunding	Issuance	Ending Balance
Subordinate lien:						
Series 1997	1.0 *	2022	\$ 108,830	\$	\$	\$ 108,830
Series 1998	4.75–5.375	2009–2017	16,905	1,345		15,560
Series 1999 A	4.75–5.5	2016–2024	121,840			121,840
Series 1999 B	5.5	2009–2016	82,060	7,565		74,495
Series 2003 C	4.445–6.0	2033	200,000	200,000		
Series 2005	1.689 *	2035	62,925			62,925
Series 2008	1.0*	2033			<u>200,715</u>	<u>200,715</u>
Total			<u>592,560</u>	<u>208,910</u>	<u>200,715</u>	<u>584,365</u>
Commercial paper	0.0628–3.241	2009	<u>186,250</u>	<u>61,570</u>	<u>28,860</u>	<u>153,540</u>
Revenue bond totals			<u>2,668,565</u>	<u>314,945</u>	<u>229,575</u>	<u>2,583,195</u>
Passenger facility charge revenue bonds:						
Series 1998 A	5.0–5.5	2016–2023	118,490			118,490
Series 1998 B	5.25–5.375	2009–2016	<u>100,270</u>	<u>9,075</u>		<u>91,195</u>
Total			218,760	9,075		209,685
Fuel hydrant special facility bonds	3.0–5.5	2009–2033	<u>116,785</u>	<u>6,370</u>		<u>110,415</u>
Bond total			3,401,945	350,160	229,575	3,281,360
Unamortized bond premiums— net of discounts and amortization			<u>45,167</u>			<u>37,573</u>
Total debt			3,447,112			3,318,933
Less current maturities of long-term debt			<u>270,810</u>			<u>247,325</u>
Long-term debt			<u>\$ 3,176,302</u>			<u>\$ 3,071,608</u>

* Variable interest rates as of December 31, 2008

(Concluded)

During June 2008, the Port issued \$200,715,000 in Series 2008 Subordinate Lien Revenue Refunding Bonds to fully refund Series 2003C Subordinate Lien Revenue Bonds and to pay the costs of issuing the Series 2008 Bonds. The economic gain resulting from the refunding transaction was \$96,091,000. The difference between the cash flows required to service the outstanding bonds and the cash flows required to service the new debt was a gain of \$74,146,000. The Series 2008 Bonds interest is payable on the first Wednesday of each month commencing July 2, 2008. The Series 2008 Bonds are subject to mandatory tender for purchase and to optional redemption prior to their scheduled maturity. The Series 2008 Bonds are being issued as variable-rate bonds and are scheduled to mature on July 1, 2033.

During March 2007, the Port issued \$27,880,000 in Series 2007A Revenue Bonds, and \$200,115,000 in Series 2007B Revenue Bonds to finance or refinance a portion of the costs of capital improvements to the Port's seaport facilities, to capitalize a portion of the interest on the Series 2007B Bonds, and to pay the costs of issuing the Series 2007 Bonds. Interest is payable on April 1 and October 1 of each year, commencing October 1, 2007. The bonds are subject to redemption prior to their scheduled maturities. The Bonds have coupon rates ranging from 3.75% to 5.00% with maturities ranging from 2008 to 2032.

During May 2003, the Port issued Fuel Hydrant Special Facility Revenue bonds in the amount of \$121,140,000 to pay for all or a portion of the costs of the acquisition, design, and construction by the Port of jet aircraft fuel storage and delivery facilities at the Airport. The Port undertook the development of the fuel system to lower the cost of fuel service at the Airport, improve Airport safety by reducing the need for fuel trucks to operate on the airfield, and address environmental concerns created by the current fuel system. The fuel facility is leased for 40 years (including two five-year option periods) to SeaTac Fuel Facilities LLC ("Lessee"), a limited liability company formed by a consortium of airlines for the purpose of providing jet fuel storage and distribution at the Airport. The Port owns the system and the Lessee will oversee day-to-day management. The Lessee is obligated to collect the fuel system fees and to make monthly rent payments including a base rent for the land to the Port and facilities rent to Wells Fargo Bank Northwest, National Association ("Trustee"). Facilities rent is established at an amount sufficient to pay monthly debt service, replenish any deficiency in the debt service reserve fund, and pay other fees associated with the bonds, including the Trustee fee. In addition, the Lessee has provided a guaranty and a security agreement to the Trustee, securing the Lessee's obligation to pay principal and interest on the bonds. Interest on the Fuel Hydrant Special Facility Revenue bonds is payable on June 1 and December 1 of each year, commencing December 1, 2003.

Proceeds from the bonds are held by the Trustee and are available to the Port on a reimbursement basis as funds are spent for construction. The fuel hydrant facility was fully operational in 2006. During December 2008, the Port defeased \$4,030,000 of Fuel Hydrant Special Facility Revenue bonds by a portion of the unspent bond proceeds held by the Trustee. At December 31, 2008 and 2007, there was \$10,336,000 and \$19,208,000, respectively, of Fuel Hydrant Special Facility Revenue unspent bond proceeds, of which \$6,305,000 and \$19,208,000, respectively, is comprised of short-term restricted cash and investments, while \$4,031,000 is comprised of long-term restricted investments for the year ending December 31, 2008.

Fuel Hydrant Special Facility Revenue bonds in the amount of \$108,005,000 and \$114,445,000, respectively, are included in long-term debt on the statements of net assets as of December 31, 2008 and 2007.

The Commission authorized the sale of subordinate lien revenue notes (commercial paper) in an aggregate principal amount not to exceed \$250,000,000 for the purpose of financing and refinancing capital improvements within the Port, for working capital, and for paying maturing revenue notes of the same series and/or reimbursing the credit providers for advances made. Commercial paper advances, short-term debt, outstanding totaled \$153,540,000 and \$186,250,000 at December 31, 2008 and 2007, respectively.

PFC revenue bonds are secured by a lien pledge of the revenues generated from the PFCs imposed by the Airport. The remaining revenue bonds are secured by a pledge of net revenues of the Port. The GO bonds and interest thereon are payable from ad valorem taxes.

The Port monitors the existence of any rebatable arbitrage interest income associated with its tax-exempt debt. The rebate is based on the differential between the interest earnings from the investment of the bond proceeds as compared to the interest expense associated with the respective bonds. As of December 31, 2008, the Port has estimated that aggregate arbitrage rebates of \$856,000 existed in conjunction with two revenue bonds series, specifically \$344,000 for Series 2005 subordinate lien revenue bonds and \$512,000 for Series 2007 revenue bonds. Amounts related to Series 2005 subordinate lien revenue bonds and Series 2007 revenue bonds are recorded as accrued long-term expenses in the statements of net assets. The actual payment of arbitrage rebate, if any, will be due in 2010 and 2012 for the Series 2005 subordinate lien revenue bonds and Series 2007 revenue bonds, respectively. Other outstanding bond issues have potential arbitrage rebatable earnings; however, management estimates indicate that no additional potential arbitrage rebate liability exists as of December 31, 2008.

Interest expense costs capitalized were \$29,133,000 and \$29,688,000 as of December 31, 2008 and 2007, respectively.

Aggregate annual payments on revenue and GO bonds and commercial paper outstanding at December 31, 2008 are as follows (in thousands):

	Principal	Interest	Total
2009	\$ 247,325	\$ 165,428	\$ 412,753
2010	101,070	151,689	252,759
2011	106,440	146,292	252,732
2012	117,130	140,248	257,378
2013	123,425	133,648	257,073
2014–2018	612,785	560,119	1,172,904
2019–2023	781,450	373,326	1,154,776
2024–2028	491,545	201,422	692,967
2029–2033	602,985	66,142	669,127
2034–2038	97,205	2,247	99,452
	<u>\$ 3,281,360</u>	<u>\$ 1,940,561</u>	<u>\$ 5,221,921</u>

6. CONDUIT DEBT

The Port has the following conduit debt obligations totaling \$208,930,000 and \$209,890,000 as of December 31, 2008 and 2007, respectively, which are not a liability or contingent liability of the Port under GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*. The Port has not recorded these obligations, or the related assets, on the accompanying financial statements of the Port, as the Port has no obligation for the outstanding bonds beyond what is provided in the leasing arrangements.

In 1999, the Port issued special facility revenue bonds to pay, among other things, a portion of the costs of the expansion of Terminal 18. The Port has agreed to lease the site of Terminal 18 and the existing and future improvements thereon to Stevedoring Services of America, Inc., and its affiliate, SSA Terminals, LLC (“SSA”). The bonds are secured by lease payments paid by SSA to the trustee (Bank of New York). No tax funds or revenues of the Port (other than Terminal 18 lease revenue) are pledged to pay the debt service on the bonds, and no liens (other than the leasehold of the Terminal 18 properties) are pledged as collateral for the debt. The first scheduled principal payment is in 2008. In 2002, total facility completion triggered debt service payments from rental revenue on the special facility bonds. The Port records the net rental revenue after debt service in its statements of revenues, expenses, and changes in net assets. The special facility revenue bonds, Series 1999 B and C Special Facilities Revenue Bonds (Terminal 18 Project), conduit debt obligation outstanding amount is \$127,930,000 and \$128,890,000 at December 31, 2008 and 2007, respectively.

Since 1982, the Port, through its blended component unit, the IDC, has issued tax-exempt nonrecourse revenue bonds to finance industrial development for acquiring, constructing, and renovating transshipment and manufacturing facilities within the corporate boundaries of the Port. These revenue bonds are secured by revenues derived from the industrial development facilities funded by the revenue bonds and leased to the IDC. No tax funds or revenues of the Port (other than the IDC lease revenue) are pledged to pay the debt service on the bonds, and no liens (other than the IDC properties) are pledged as collateral for the debt. At December 31, 2008 and 2007, industrial revenue bonds of \$81,000,000 were outstanding.

7. LONG-TERM LIABILITIES

The following is a summary of the accrued environmental expenses, arbitrage rebate liability, accrued election expenses, deferred revenue, and other activities which make up the Port's long-term obligation balances for the years ended December 31, 2008 and 2007 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long- Term Portion
2008						
Accrued environmental expenses	\$ 13,929	\$ 30,045	\$ (16,787)	\$ 27,187	\$ 9,098	\$ 18,089
Accrued arbitrage rebate liability	1,660	256	(1,060)	856		856
Accrued election expense	2,270	1,287	(2,270)	1,287		1,287
Deferred revenue	11,055	5,994	(8,136)	8,913	6,747	2,166
Others		45		45		45
Total long-term liabilities	<u>\$ 28,914</u>	<u>\$ 37,627</u>	<u>\$ (28,253)</u>	<u>\$ 38,288</u>		
2007						
Accrued environmental expenses	\$ 14,123	\$ 7,346	\$ (7,540)	\$ 13,929	\$ 7,750	\$ 6,179
Accrued arbitrage rebate liability	1,675	600	(615)	1,660	1,060	600
Accrued election expense	943	1,327		2,270	2,270	
Deferred revenue	<u>3,084</u>	<u>9,823</u>	<u>(1,852)</u>	<u>11,055</u>	7,920	3,135
Total long-term liabilities	<u>\$ 19,825</u>	<u>\$ 19,096</u>	<u>\$ (10,007)</u>	<u>\$ 28,914</u>		

8. ENTERPRISE FUND PENSION PLANS

Public Employees' Retirement System ("PERS")—Substantially all of the Port's full-time and qualifying part-time employees, other than those covered under union plans, participate in PERS. This is a statewide local government retirement system administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer defined benefit public employee retirement plans. The PERS system includes three plans.

Participants who joined the system by September 30, 1977, are PERS Plan I members. Those joining thereafter are enrolled in PERS Plan II. In March 2000, Governor Gary Locke signed into law a new retirement plan for members of the PERS Plan II. The new plan, entitled PERS Plan III, provides members with a defined benefit plan similar to PERS Plan II and the opportunity to invest their retirement contributions in a defined contribution plan.

PERS Plan I members are eligible for retirement at any age after 30 years of service, at age 60 with five years of service, or at age 55 with 25 years of service. The annual pension is 2% of the average final compensation per year of service, capped at 60%. The average final compensation is based on the greatest compensation earned during any 24 eligible consecutive compensation months.

PERS Plan II members may retire at age 65 with five years of service or at age 55 with 20 years of service. The annual pension is 2% of the average final compensation per year of service. PERS Plan II retirements prior to 65 are actuarially reduced. On July 1 of each year following the first full year of retirement service, the benefit will be adjusted by the percentage change in the Consumer Price Index ("CPI") of Seattle, capped at 3% annually.

PERS Plan III members may retire at age 65 with five years of service or at age 55 with 10 years of service for the defined benefit allowance. PERS Plan III retirements prior to 65 are actuarially reduced. PERS Plan III is structured as a dual benefit program that will provide members with the following benefits:

- A defined benefit allowance similar to PERS Plan II calculated as 1% of the average final compensation per year of service (versus a 2% formula) and funded entirely by employer contributions.
- A defined contribution account consisting of member contributions plus the full investment return on those contributions.

Each biennium, the State Pension Funding Council adopts PERS Plan I employer contribution rates and PERS Plan II employer and employee contribution rates. Employee contribution rates for PERS Plan I are established by statute at 6% and do not vary from year to year. The employer and employee contribution rates for PERS Plan II are set by the director of the Department of Retirement Systems, based on recommendations by the Office of the State Actuary, to continue to fully fund PERS Plan II. Unlike PERS Plan II, which has a single contribution rate (which is currently 5.45%), with PERS Plan III, the employee chooses how much to contribute from six contribution rate options. Once an option has been selected, the contribution rate choice is irrevocable unless the employee changes employers.

All employers are required to contribute at the level established by State law. The methods used to determine the contribution requirements are established under State statute in accordance with Chapters 41.40 and 41.26 RCW.

The Port's covered payroll for PERS for the year ended December 31, 2008, was \$72,048,000.

The Port's contribution rates during 2008 expressed as a percentage of covered payroll for employer ranged from 5.97% to 8.15% for PERS Plan I, PERS Plan II, and PERS Plan III. The employer rates do not include the employer administrative expense fee currently set at 0.16%. For employees, the rate was 6% for PERS Plan I and a range of 4.15% to 5.45% for PERS Plan II, and PERS Plan III depends on the option the employee has chosen.

Both the Port and the employees made the required contributions. The Port's required contributions for the years ended December 31 were as follows:

	PERS Plan I	PERS Plan II	PERS Plan III
2008	\$ 641,065	\$ 4,352,159	\$ 547,015
2007	588,579	3,212,007	314,017
2006	593,708	1,602,797	147,300

The pension obligation was calculated on a pension system basis and cannot be disclosed on a plan basis. PERS does not make separate measurements of assets and pension obligations for individual employers.

Law Enforcement Officers' and Fire Fighters' Retirement System ("LEOFF")—LEOFF is a cost-sharing multiple-employer defined benefit pension plan. Membership in the plan includes all full-time, fully compensated local law enforcement officers, and fire fighters. The LEOFF system includes two plans.

Participants who joined the system by September 30, 1977, are LEOFF Plan I members. Those joining thereafter are enrolled in LEOFF Plan II. Retirement benefits are financed from employee and employer contributions, investment earnings, and State contributions. Retirement benefits in both LEOFF Plan I and LEOFF Plan II are vested after completion of five years of eligible service.

LEOFF Plan I members are eligible to retire with five years of service at age 50. The service retirement benefit is dependent upon the final average salary and service credit years at retirement. On April 1 of each year following the first full year of retirement service, the benefit will be adjusted by the percentage change in the CPI of Seattle.

Term of Service	Percent of Final Average
5–9 years	1.0 %
10–19 years	1.5
20 or more years	2.0

LEOFF Plan II members are eligible to retire at the age of 50 with 20 years of service or at age 53 with five years of service. Retirement benefits prior to age 53 are actuarially reduced at a rate of 3% per year. The benefit is 2% of the final average salary per year of service. The final average salary is determined as the 60 highest paid consecutive service months. There is no limit on the number of service credit years, which may be included in the benefit calculation. On July 1 of each year following the first full year of retirement service, the benefit will be adjusted by the percentage change in the CPI of Seattle, capped at 3% annually.

LEOFF Plan I employer and employee contribution rates are established by statute, and the State is responsible for the balance of the funding at rates set by the Pension Funding Council to fully amortize the total costs of the plan. Employer and employee rates for LEOFF Plan II are set by the director of the Department of Retirement Systems, based on recommendations by the Office of the State Actuary, to continue to fully fund the plan. LEOFF Plan II employers and employees are required to contribute at the level required by State law. The methods used to determine the contribution rates are established under State statute in accordance with Chapters 41.26 and 41.45 RCW.

The Port's covered payroll for LEOFF for the year ended December 31, 2008, was \$16,694,000.

The Port's required contribution rates during 2008 expressed as a percentage of covered payroll for LEOFF Plan I was 0% for both employer and employee. For LEOFF Plan II (Firefighters), the range of rates was 5.19% to 5.30% for employer and 8.64% to 8.83% for employees. For LEOFF Plan II (Police), the range of rates was 8.64% to 8.83% for employer and 8.64% to 8.83% for employees. The employer rates do not include the employer administrative expense fees currently set at 0.16% for LEOFF Plan I and LEOFF Plan II (Firefighters) and 0.16% for LEOFF Plan II (Police).

Both the Port and the employees made the required contributions. The Port's required contributions for the years ended December 31 were as follows:

	LEOFF Plan I	LEOFF Plan II (Firefighters)	LEOFF Plan II (Police Officers)
2008	\$ 378	\$ 340,537	\$ 906,652
2007	507	297,803	813,532
2006	6,232	294,488	711,711

Historical trend information regarding all of these plans is presented in Washington State's Department of Retirement Systems' annual financial report. A copy of this report may be obtained at:

Department of Retirement Systems
 Point Plaza West
 1025 East Union Street
 P.O. Box 48380
 Olympia, WA 98504-8380

Internet Address: www.drs.wa.gov

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In addition to pension benefits as described in Note 8, the Port provides other postemployment benefits (OPEB).

Plan Descriptions—The Port administers and contributes to three single-employer defined benefit plans (the "Plans"): (1) LEOFF Plan 1 Members' Medical Services Plan, (2) Retirees Medical Insurance Plan, and (3) Retirees Life Insurance Plan. Under the Washington State Department of Retirement Systems, the Port is required to pay for retired LEOFF Plan 1 members' medical services expenses. Under the Port's medical and life insurance contracts, the Port allows eligible retired employees and their dependents to continue their medical insurance coverage at their own expense by participating in the Port's medical insurance group plan. Eligible retired employees are also provided with life insurance coverage for a death benefit up to \$25,000. The Port can establish and amend benefit provisions of these Plans. There are no separate OPEB plans related financial reports issued.

Funding Policy and Annual OPEB Costs—For the LEOFF Plan 1 Members' Medical Services Plan, the Washington State Department of Retirement Systems establishes and may amend the contribution requirements of plan members and the Port. The contribution requirements of the Retirees Medical Insurance Plan and the Retirees Life Insurance Plan are established and may be amended by the Port. The Port's annual OPEB cost for the current year and the related information for each plan are as follows (in thousands):

	LEOFF Plan 1 Members' Medical Service Plan ^(a)	Retirees Medical Insurance Plan	Retirees Life Insurance Plan
Contribution rates:			
Port	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go
Plan members	N/A	N/A	N/A
Annual required contribution	\$ 4,108	\$ 3,389	\$ 516
Interest on net OPEB obligation	299	118	16
Adjustment to annual required contribution	<u> </u>	<u>(102)</u>	<u>(14)</u>
Annual OPEB costs	4,407	3,405	518
Contribution made	<u>(404)</u>	<u>(546)</u>	<u>(296)</u>
Increase in net OPEB obligation	4,003	2,859	222
Net OPEB obligation beginning of year	<u>2,916</u>	<u>2,765</u>	<u>371</u>
Net OPEB obligation end of year	<u>\$ 6,919</u>	<u>\$ 5,624</u>	<u>\$ 593</u>

(a) As the LEOFF Plan 1 Members' Medical Service Plan has less than 100 plan members, the Port elected to use the Alternative Measurement Method to estimate the annual required contribution.

The schedule of employer contributions at December 31, 2008 and 2007 are as follows (in thousands):

Years Ended December 31	Annual OPEB Costs	Employer Contributions	Percentage Contributed	Net OPEB Obligation
LEOFF Plan 1 Members' Medical Service Plan				
2008	\$ 4,407	\$ 404	9.2 %	\$ 6,919
2007	3,058	142	4.6	2,916
Retirees Medical Insurance Plan				
2008	\$ 3,405	\$ 546	16.0 %	\$ 5,624
2007	3,239	474	14.6	2,765
Retirees Life Insurance Plan				
2008	\$ 518	\$ 296	57.1 %	\$ 593
2007	495	124	25.1	371

Funding Status—As of December 31, 2008 and 2007, using the Alternative Measurement Method, the actuarial accrued liability for LEOFF Plan 1 Members' Medical Services Plan benefits was \$6,919,000 and \$2,916,000, respectively, all of which was unfunded.

For the other two OPEB plans, as of November 1, 2006, the most recent actuarial valuation date, funding progress was as follows (in thousands):

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
Retirees Medical Insurance Plan	\$	\$ 31,107	0.0 %	\$ 31,107	\$ 56,054	55.5 %
Retirees Life Insurance Plan		7,007	0.0	7,007	67,296	10.4

Actuarial valuations of an ongoing plan 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, investment rate of return, payroll growth rate 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.

Actuarial Methods and Assumptions—Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the LEOFF Plan 1 Members' Medical Services Plan, the following simplifying assumptions were made when the Alternative Measurement Method was used:

- *Retirement age for active employees*—Based on the historical average retirement age for the covered group, active plan members were assumed to retire the year immediately following that in which the member would qualify for benefits.
- *Mortality*—Life expectancies were based on mortality tables from the U.S. Department of Health & Human Services. The 2004 United States Life Table for Males was used.
- *Healthcare cost trend rate*—The expected rate of increase in healthcare expenditure was based on projections of the Centers for Medicare and Medicaid Services. A rate of 6.7 % initially, reduced slightly to an ultimate rate of 6.7% after seven years, was used.
- *Health insurance premiums*—2009 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.
- *Investment rate of return*—a rate of 4.25% was used, which is an estimated long-term investment return on the investments that are expected to be used to finance the payment of benefits.

Additionally, the unfunded actuarial accrued liability is not amortized as the LEOFF Plan 1 Members' Medical Services Plan is closed to new entrants and almost all of the plan members have retired.

For the Retirees Medical Insurance Plan and Retirees Life Insurance Plan, as of November 1, 2006, the most recent actuarial valuation date, the actuarial accrued liability is determined by the independent actuary using the Projected Unit Credit actuarial cost method. The actuarial assumptions included a 4.25% investment rate of return, which is an estimated long-term investment return on the investments that are expected to be used to finance the payment of benefits. Also, an initial annual medical cost trend rate of 10% and an initial annual prescription drug cost trend rate of 13.5% were used, which were reduced by decrements to an ultimate rate of 5% after 8 years for both cost trend rates. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a 30-year open period, assuming payroll growth of 3.5% per year.

10. ENVIRONMENTAL RESERVES

The Port has identified a number of contaminated sites on Aviation, Seaport, and Real Estate properties and facilities that must be investigated for the presence of hazardous substances and remediated in compliance with Federal and State environmental laws and regulations. Some Port facilities may require asbestos abatement, and some properties owned or operated by the Port may have unacceptable levels of contaminants in soil, sediments and/or groundwater. In some cases, the Port has been designated by the Federal government as a "Potentially Responsible Party", and/or by the State government as a "Potentially Liable Person" for the investigation and cleanup of properties owned by the Port or where the Port may have contributed to site contamination. Although the Port may not bear ultimate liability for the contamination, under Federal and State law, the Port is presumptively liable as the property owner, and it is often practically and financially beneficial for the Port to take initial responsibility to manage and pay for the cleanup.

As of December 31, 2008, the Port environmental reserves are \$27,187,000, based on reasonable and supportable assumptions, measured at current value using the expected cash flow technique. The Port environmental reserves do not include cost components that are not yet reasonably measurable. The Port environmental reserves will change over time due to changes in costs of goods and services, changes in remediation technology, and changes in governing laws and regulations.

In many cases, the Port has successfully recovered Port-incurred investigation and cleanup costs from other responsible parties. The Port will continue to seek appropriate recoveries in the future. As of December 31, 2008, the environmental reserves were reduced by \$11,992,000 of estimated unrealized recoveries.

11. CONTINGENCIES

The Port is a defendant in various legal actions and claims. Although certain lawsuits and claims are significant in amount, the final dispositions are not determinable, and in the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or results of operations of the Port. In some cases, the Port has provided reserves for these matters, which in the opinion of management, are adequate.

Amounts received or receivable under Federal grants-in-aid programs are subject to audit and adjustment by the granting agency. Any disallowed claims, including amounts already received, may constitute a liability of the Port. The amount, if any, of expenditures that may be disallowed cannot be determined at this time, although the Port expects such amounts, if any, to be insignificant.

12. COMMITMENTS

As of December 31, 2008, and 2007, the Port has authorized or made commitments for acquisition and construction as follows (in thousands):

	2008	2007
Funds committed:		
Airport facilities	\$ 160,634	\$ 334,732
Seaport terminals	51,686	141,283
Real Estate properties	1,692	
Corporate	10,443	9,091
Economic and trade development		232
Funds authorized but not yet committed:		
Airport facilities	561,789	222,574
Seaport terminals	13,642	108,147
Real Estate properties	97,719	
Corporate	1,208	8,149
Economic and trade development		120
Total	<u>\$ 898,813</u>	<u>\$ 824,328</u>

13. FAIR VALUE MEASUREMENTS

The fair value of the Enterprise Fund's cash equivalents and investments as well as long-term debt is estimated using quoted market prices in the active market. The following table summarizes the fair values of financial instruments measured on a recurring basis as of December 31 (in thousands):

Description	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as of December 31
2008				
Cash, cash equivalents, and investments	\$ 712,256	\$	\$	\$ 712,256
Long-term debt	3,149,344			3,149,344
2007				
Cash, cash equivalents, and investments	\$ 826,999	\$	\$	\$ 826,999
Long-term debt	3,516,154			3,516,154

14. BUSINESS INFORMATION

For the Enterprise Fund's three major business activities, operations consist of Seaport terminals, Airport facilities, and Real Estate properties. Indirect costs have been allocated to Seaport terminals, Airport facilities, and Real Estate properties using various methods based on estimated hours of work, revenue plus expenses, full-time equivalent positions, and other factors.

The Port's operating revenues are derived from various sources. The Seaport's operating revenues are principally derived from the leasing of Seaport terminal facilities. The Aviation's operating revenues are derived primarily from its airline agreements, concession agreements, and other business arrangements. The Real Estate's operating revenues are primarily derived from the leasing of commercial and industrial real estate, recreational marinas, and industrial fishing terminals.

The business information by division presented below includes fiscal year ending 2008 and forward, coinciding with the newly formed Real Estate Division in 2008 to allow the Seaport and Aviation divisions to concentrate on their core businesses.

Operating revenues, as reflected in the statements of revenues, expenses, and changes in net assets, from the Port's major sources for the year ended December 31, 2008 are as follows (in thousands):

Seaport Division:	
Property rentals	\$ 68,828
Equipment rentals	8,944
Operating grants	10,169
Other	<u>7,165</u>
Total Seaport Division operating revenues	<u>\$ 95,106</u>
Aviation Division:	
Property rentals	\$ 208,577
Landing fees	65,770
Parking	61,313
Operating grants	1,231
Other	<u>21,438</u>
Total Aviation Division operating revenues	<u>\$ 358,329</u>
Real Estate Division:	
Property rentals	\$ 11,660
Conference centers	11,833
Berthage and moorage	9,073
Utilities	1,089
Operating grants	109
Other	<u>1,142</u>
Total Real Estate Division operating revenues	<u>\$ 34,906</u>

No single major customer represents total Port's revenue in 2008. For Seaport Division, the revenues from its major customers accounted for 76.3% of total operating revenues in 2008. For Aviation Division, the revenues from its major customers accounted for 13.0% of total operating revenues in 2008. No single major customers represent Real Estate Division revenue in 2008.

Operating revenues, as reflected in the statements of revenues, expenses, and changes in net assets, from the Port's major customers for the year ended December 31, 2008 are as follows (in thousands):

	Seaport	Aviation	Real Estate	Total
Revenues	\$ 72,526	\$ 46,426	\$	\$ 118,952
Number of major customers	4	1		5

Financial information by division for the year ended December 31, 2008 is as follows (in thousands):

	Seaport	Aviation	Real Estate
Operating revenue	\$ 95,106	\$ 358,329	\$ 34,906
Operations and maintenance	26,287	147,453	32,990
Administration	9,967	29,556	3,561
Law enforcement	2,767	15,762	1,692
Environmental—net	<u>5,872</u>	<u>2,412</u>	<u>604</u>
Total operating expenses before depreciation	<u>44,893</u>	<u>195,183</u>	<u>38,847</u>
Net operating income (loss) before depreciation	50,213	163,146	(3,941)
Depreciation	<u>26,824</u>	<u>107,349</u>	<u>10,033</u>
Operating income (loss)	<u>23,389</u>	<u>55,797</u>	<u>(13,974)</u>
Nonoperating income (expense):			
Ad valorem tax levy revenue	60,643	1,936	13,101
Passenger facility charges revenue and related interest income		62,770	
Customer facility charges revenue and related interest income		23,534	
Grants and donations	2,919	49,460	57
Investment income—net	12,152	23,467	215
Revenue and capital appreciation bond interest expense	(13,545)	(89,005)	(2,513)
Passenger facility charges revenue bond interest expense		(11,412)	
General obligation bond interest expense—net	(15,651)		(1,321)
Public expense	(2,808)	(24,686)	
Other income (expense)—net	<u>(2,694)</u>	<u>(5,678)</u>	<u>9,365</u>
Total nonoperating income—net	<u>41,016</u>	<u>30,386</u>	<u>18,904</u>
Increase in net assets	<u>\$ 64,405</u>	<u>\$ 86,183</u>	<u>\$ 4,930</u>
Identifiable capital assets	\$ 1,059,565	\$ 3,647,728	\$ 310,228
Other identifiable assets	<u>332,395</u>	<u>709,772</u>	<u>63,585</u>
Identifiable assets	<u>\$ 1,391,960</u>	<u>\$ 4,357,500</u>	<u>\$ 373,813</u>
Capital expenditures	<u>\$ 88,169</u>	<u>\$ 209,784</u>	<u>\$ 21,241</u>
Debt	<u>\$ 712,251</u>	<u>\$ 2,513,041</u>	<u>\$ 93,641</u>

15. WAREHOUSEMEN'S PENSION TRUST FUND

In late 2002, the Port terminated all warehousing operations at Terminal 106 following the departure of Hasbro, the principal customer operating at the facility. Prior to closing the warehouse, the Port had provided pension and health benefits to represented employees under a Collective Bargaining Agreement with Local #9 of the International Longshore and Warehouse Union ("ILWU"). The benefits were administered by two separate trusts, the Warehousemen's Pension Trust and the Local #9 Health & Welfare Trust. The Port made quarterly contributions to each trust in an amount sufficient to provide the required contractual benefits and the trusts were jointly administered by trustees appointed by both Local #9 and the Port.

Upon expiration of the contract with Local #9, the Port ceased making contributions to the Health & Welfare Trust and provided employees with the ability to maintain their health coverage by self-paying premiums through the Port's medical plan. The Port also ceased making contributions to the Warehousemen's Pension Trust.

On May 25, 2004, the Port became the sole administrator for the Warehousemen's Pension Plan (the "Plan") and Trust and commenced contributions to the Plan. A schedule of employer contributions is shown below. The Plan is a governmental plan maintained and operated solely by the Port.

Summary of Accounting Policies—The financial statements are prepared using the accrual basis of accounting. Port contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments policy—The Warehousemen's Pension Trust investment policy allows the Plan to invest in contracts with insurance companies that are rated no lower than A by at least two major rating agencies. The Plan is allowed to invest in commercial paper with A1/P1 rating. Certificates of deposit or banker's acceptances can only be purchased from domestic banks with net worth in excess of \$2 billion and which satisfy tier 1 and tier 2 capital requirements. Bank deposits or short-term investment accounts must be maintained by the Plan's custodian. Repurchase agreements can only be entered with Federal Reserve reporting dealers and maintained in accordance with Federal Reserve guidelines. Only United States registered mutual funds or ERISA-qualified commingled funds whose investment strategies and governing documents have been reviewed and approved by the Board of Trustees can be purchased. The Plan's investment policy allows for 60% plus or minus 5% of the portfolio to be invested in equities securities and 40% plus or minus 5% of the portfolio to be invested in fixed income securities.

Method Used to Value Investments—Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price on the last business day of the year.

As of December 31, 2008, and 2007, the Plan had the following investments (in thousands).

	2008	2007
Vanguard Total Stock Market Index Fund	\$ 2,168	\$ 3,763
Vanguard Total International Stock Index Fund	2,093	\$ 4,129
Vanguard Total Bond Market Index Fund	516	
Western Asset Core Bond Fund	<u>3,382</u>	<u>4,860</u>
Total	<u>\$ 8,159</u>	<u>\$ 12,752</u>

Investments Concentration of Credit Risk—The Plan places no limit on the amount the Plan may invest in any one issuer. As of December 31, 2008, and 2007, the Plan had the following investments of more than 5% of the total Plan’s investments

	2008	2007
Vanguard Total Stock Market Index Fund	26.5 %	29.5 %
Vanguard Total International Stock Index Fund	25.7	32.4
Vanguard Total Bond Market Index Fund	6.3	
Western Asset Core Bond Fund	41.5	38.1

Investments Credit Risk—As of December 31, 2008 and 2007, the Plan’s investment in Western Asset Core Bond Fund Portfolio was rated AA+ by Standard & Poor’s Investors Service. As of December 31, 2008 and 2007, the Plan’s investment in Vanguard Total Stock Market Index Fund Portfolio and Vanguard Total International Stock Index Fund Portfolio were rated “above average” by Morningstar Inc. As of December 31, 2008, the Plan’s investment in Vanguard Total Bond Market Index Fund Portfolio was rated “below average” by Morningstar Inc.

Plan Description and Contribution Information—Membership of the plan consisted of the following at January 1, 2008, and 2007, the date of the latest actuarial valuation:

	2008	2007
Retirees and beneficiaries receiving benefits	139	137
Terminated plan members entitled to but not yet receiving benefits	<u>78</u>	<u>82</u>
Total	<u><u>217</u></u>	<u><u>219</u></u>

Plan Description—The Plan is a single-employer defined benefit plan. The Plan provides that only service credited and compensation earned prior to April 1, 2004, shall be utilized to calculate benefits under the Plan, and the Port agrees to maintain the frozen Plan and to contribute funds to the Plan in such amounts that may be necessary to enable the Plan to pay vested accrued benefits as they become due and payable to participants and beneficiaries in the ordinary course of business. There is no separate financial statement of the Plan issued.

Actuarial Assumptions—The actuarial present value of accumulated plan benefits is determined by the independent actuary using the Individual Entry Age Normal actuarial cost method, and is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation dates and the expected date of payment.

The significant actuarial assumptions used in the valuations as of January 1, 2008, the date of the latest actuarial valuation, did not change from prior year, and were (a) life expectancy of participants (RP2000 Blue Collar Mortality Table was used), (b) retirement age of 55 and 10 years of service or age of 62, and (c) investment return. The valuations included an assumed average rate of return of investment of 7.0%, net of investment expenses. The unfunded actuarial accrued liability is being amortized as a level dollar amount over a 20-year closed period.

Annual Pension Cost and Net Pension Asset—The Port’s annual pension costs and net pension asset to the Warehousemen’s Pension Trust Fund for the current year were as follows (in thousands):

Annual required contribution	\$ 1,290
Interest on net pension asset	180
Adjustment to annual required contribution	<u>(243)</u>
Annual pension cost	1,227
Contributions made	<u>(1,500)</u>
Increase in net pension asset	273
Net pension asset beginning of year	<u>395</u>
Net pension asset end of year	<u><u>\$ 668</u></u>

The net pension asset is included in prepayments and other current assets on the statements of net assets.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio
12/31/2008	\$ 8,508	\$ 25,176 *	\$ 16,668	33.8 %
12/31/2007	13,102	25,633	12,531	51.1
12/31/2006	13,014	26,559	13,545	49.0
12/31/2005	12,335	26,991	14,656	45.7
12/31/2004	12,662	27,530	14,868	46.0
12/31/2003**	11,984	25,975	13,990	46.1

This plan covers inactive participants. There are no related payroll costs.

*Estimated liabilities as of December 31, 2008 are based on January 1, 2008, data.

**Data provided to actuary was unaudited.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Years Ended December 31	Annual Required Contribution	Employer Contributions	Percentage Contributed	Net Pension Obligation/(Asset)
2008	\$ 1,290	\$ 1,500	116.3 %	\$ (668)
2007	1,325	1,500	113.2	(395)
2006	1,437	1,500	104.4	(147)
2005	1,456	1,000	68.7	(7)
2004	1,717	2,000	116.5	(397)
2003***	1,972	177	9.0	2,972

***Data provided to actuary was unaudited. Since the adoption of the plan on May 24, 2004, the beginning net pension obligation was established as zero as to the information necessary to perform the calculation was not available in the prior periods.