THE PORT OF SEATTLE

STATE OF WASHINGTON

Comprehensive Annual Financial Report

for the Year Ended December 31, 2006

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the Year Ended December 31, 2006

This report was prepared by

Department of Accounting & Procurement Services

Port of Seattle

State of Washington

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PORT OF SEATTLE

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INTRODUCTORY SECTION

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Port of Seattle

April 20, 2007

To the Port of Seattle Port Commission:

The Comprehensive Annual Financial Report (CAFR) of the Port of Seattle (the “Port”) as of and for the year ended December 31, 2006 is enclosed. This report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this letter of transmittal, organizational chart, and list of principal officials. The Financial Section, beginning with the independent auditor’s report, contains management’s discussion and analysis (“MD&A”), Enterprise Fund and Warehousemen’s Pension Trust Fund financial statements, and notes to the financial statements. The Statistical Section includes selected financial, economic, and demographic data. All amounts are rounded to the nearest million dollars in the MD&A and thousand dollars in the notes to the financial statements for presentation purposes within this report.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, in this report rests with management of the Port. On the basis that the cost of internal controls should not outweigh their benefits, the Port has established a comprehensive framework of internal controls to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

A firm of independent auditors is engaged each year to conduct an audit of the Port’s financial statements in accordance with auditing standards generally accepted in the United States of America. The goal of the independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. The audit includes an examination, on test basis, of the evidence supporting the amounts and disclosures in the financial statements, assessment of the accounting principles used and significant estimates made by management, as well as the overall presentation of the financial statements. In planning and performing their audit, the independent auditors gave consideration to the Port’s comprehensive framework of internal controls in order to determine auditing procedures for the purpose of expressing an opinion on the financial statements. The independent auditor’s report is presented as the first component in the Financial Section following this letter.

The independent audit of the financial statements of the Port included a broader federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government’s internal controls and compliance with legal requirements, involving the administration of federal awards. These reports are available in the Port’s separately issued Single Audit Report.

This letter of transmittal is designed to complement the MD&A, which provides a narrative introduction, overview, and analysis to the basic financial statements, and should be read in conjunction with it.

Profile of the Port

The Port is a municipal corporation of the State organized on September 5, 1911, under provisions of the laws of the State, now codified at RCW 53.04.010 et seq. In 1942, the local governments in King County, Washington (the "County") selected the Port to operate the Airport.

Port policies are established by the five-member Commission elected at large by the voters of the County for four-year terms. The Commission appoints the Chief Executive Officer. Through resolutions and directives, the Commission sets policy for the Port. The policies set by the Commission are implemented by the Port's Chief Executive Officer and his executive staff.

The Port is comprised of three operating divisions, namely Aviation, Seaport, and Economic Development. The Aviation and Seaport Divisions are organized to manage the Airport and the Port's container and other maritime facilities, respectively. The Economic Development Division integrates the components of business and international trade development, real estate development, and regional transportation. Other Portwide departments include Accounting and Procurement Services, Port Construction Services, Engineering, Executive, Finance and Budget, Government Relations, Information Technology, Labor Relations, Legal, Human Resources and Development, Police, Health and Safety, Risk Management, Commission Office and Public Affairs. These departments support the operating divisions and the broad mission of the Port.

The operating budget is an essential component of the management planning and control process. It quantifies business group or departmental plans for the following year in both operational and monetary terms. The budgetary process includes a series of Commission briefings with the operating divisions during the year to update the Commission on key issues facing the business groups and to receive input into any changes in strategy. The divisions update the Commission on each business unit with background information, discussing capital and operating financial statistics, and engaging the Commission in a dialogue on major policy issues. Divisions fine-tune their business plans based on Commission guidance and develop budgets based on revised business plans. On an annual basis, divisions present preliminary budgets to the Commission and the Commission reviews the budget and votes on its adoption. Once an annual budget is in place, variances from the budget are analyzed monthly, and more extensively quarterly, to determine if corrective action is needed. Progress in achieving budget targets is a short-term measure of progress in achieving business plan targets.

Local Economy and Outlook

In 2006, the State of Washington's employment situation showed relatively healthy growth. Construction, manufacturing, and professional and business services posted healthy gains during the year. Job growth in these higher-than-average wage industry sectors helped the housing sector and the retail industry even after interest rates started rising. The State's employment increased by 2.1% during 2006. The largest urban center in Washington continued to be the major contributor to employment growth over the year. The King County region added an estimated 39,900 new jobs, a growth rate of 4.1% in the past year, which accounted for nearly 61.5% of the State's employment gain. The three industries with the greatest contribution to growth of the State are professional and business services, construction, and manufacturing, which together added 45,500 jobs over the past year, or about 57.4% of the State's gains.

Our local economy exhibited more economic vitality than did the rest of the nation due to growth in the aerospace industry, a vital export base, the presence of knowledge-based industries such as business, professional, health, and financial services, and a high quality of life that continues to support strong population growth.

The Port's 2006 performance reflects the underlying strength of our local economy. Air passenger traffic set a new record of 30.0 million passengers in 2006, a 2.4% increase from 2005. The Seattle seaport also experienced another record setting year in grain volumes of 5.9 million metric tons, the highest since the Port's grain terminal was constructed in 1977. Container volumes dropped slightly, by 4.8% to 2.0 million TEUs (Twenty-foot equivalent units – a measure of container volume) following two years of record setting growth. Furthermore, there were a record number of cruise sailings with 196 cruise ship calls and 751,000 passengers, a 9.4% increase from the previous year.

The U.S. economy is heading into a period of slower growth in 2007, primarily due to a decline in housing-related activities. Even though residential investment spending is likely to decline in 2007, nonresidential investment spending may continue to grow. Capital spending on structures often begins to accelerate as residential investment spending declines. Furthermore, capital spending on equipment and software was also growing at a healthy level in 2006. Real gross domestic product (GDP) growth is forecasted to be moderate in 2007. Slower GDP growth is generally accompanied by slower employment growth with a soft landing of the economy.

Long-Term Financial Planning

The Port's long-term financial planning continues the programs, initiatives and investments currently underway in direct support of the Port's mission. The Port's 2007 budget reflects our continued success in growing revenues while effectively managing costs and underscores our ongoing commitment to our airline partners to mitigate future rate increases tied to new airport facility costs.

The Aviation Division has had significant success in developing and implementing strategies to reduce future airline costs as measured by Cost Per Enplanement ("CPE"). Through aggressive cost management, growth in non-airline revenues, capital project deferrals, and financing strategy, the forecasted CPE for 2009 and 2012 has dropped from $14.15 to $13.03 and from $16.49 to $14.32, respectively.

In 2007, the Seaport Division plans to maximize revenues in both the commercial and recreational marinas, and improve and update our seaport facilities to meet market demands while efficiently managing our existing assets and planning for expected future growth. The Seaport Division is now targeting net operating income ("NOI") of $46 million for the year ending 2008.

For 2007, the Port is budgeting total operating revenues of $442.7 million. This represents a 5.1% increase over the 2006 budget. Total operating expenses are budgeted at $249.7 million, 9.2% higher than the 2006 budget. Nearly $12.9 million of budgeted 2007 operating expenses results from adoption of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* requiring the establishment of a non-cash liability for other post employment benefits. NOI is $192.9 million, a 0.1% increase over the 2006 budget. Depreciation Expense is budgeted at $148.9 million, an increase of $10.9 million over 2006. NOI after Depreciation is $44 million, reduced by $10.8 million from the 2006 budget. We are continually working to improve financial performance for the mutual benefit of the Port and our customers. The total capital budget for 2007 is $684.1 million and the capital improvement program for 2007-2011 is $2.2 billion, which represents on-going critical infrastructure investments that support the Port's business plan goals and objectives in all divisions.

Major Initiatives

Several key indicators envision another successful year in 2007 and a bright long-term future for the Port. The Third Runway project is on track to be in use by the end of 2008, as is the relocation of the north expressway being pursued in conjunction with light rail coming to the Airport by 2009. The Port and King County announced a cooperative effort to explore a land exchange that would transfer ownership of King County International Airport (Boeing Field) to the Port. Other initiatives include continuation of infrastructure improvements and noise mitigation; baggage screening and other security improvements, design and construction of a new rental car facility and portions of the Comprehensive Development Plan to further expand Airport capacity. The Seaport Division is planning on increasing container terminal acreage by converting Terminal 30 back to container use and moving the cruise operations currently located there to Terminal 91. In addition, the Seaport is making improvements at Terminals 18 and 25 and continues renewal and replacement efforts at Shilshole Marina, Fishermen's Terminal, Terminal 115 and Terminal 91. The Economic Development Division has engaged in planning the development of the North Bay Project, uplands north of Terminal 91.

Based on these indicators, we see a bright future for the Port in keeping to its mission of "Creating Economic Vitality Here."

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Port of Seattle for its comprehensive annual financial report for the fiscal year ended December 31, 2005. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of the Aviation Finance & Budget, Seaport Finance, Corporate Finance & Budget, and Corporate Accounting & Procurement Services departments. We wish to express our appreciation to all who assisted and contributed to the preparation of this report. Credit also must be given to the Commissioners and Executive Officers for their unfailing support to maintain the Port's financial statements in conformance with the highest professional standards.

Respectfully submitted,

Tay Yoshitani
Chief Executive Officer

Dan Thomas
Chief Financial Officer

Rudy Caluza
Director, Accounting and Procurement Services

Lisa Lam
Financial Reporting Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Port of Seattle
Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2005

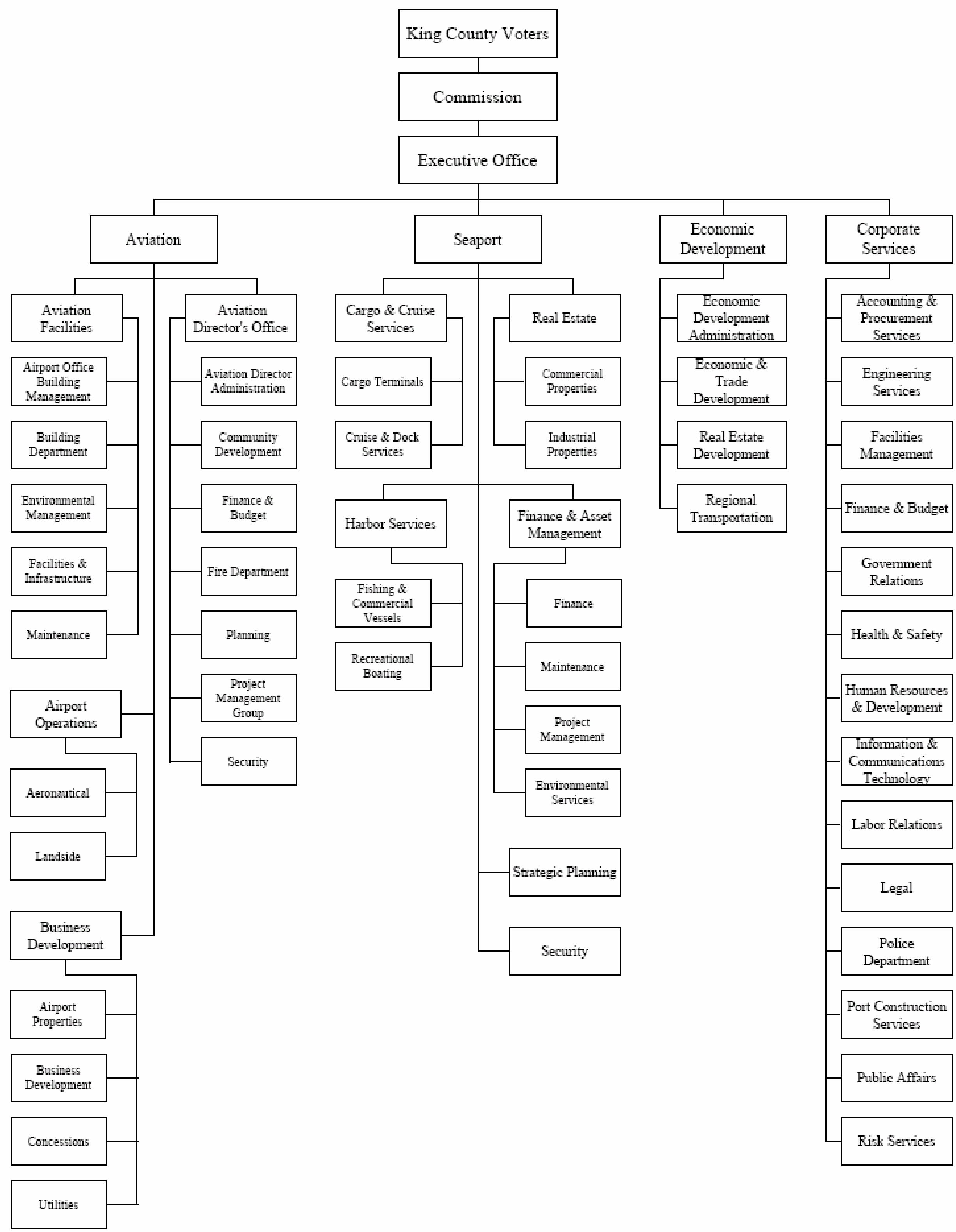
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

ORGANIZATIONAL CHART



LIST OF ELECTED AND APPOINTED OFFICIALS IN 2007

Elected Board of Commissioners

Name	Office	Term Expires
John Creighton	Chair and President	December 31, 2009
Lloyd Hara	Vice Chair	December 31, 2009
Alec Fisken	Secretary	December 31, 2007
Bob Edwards	Assistant Secretary	December 31, 2007
Patricia Davis	Commissioner	December 31, 2009

Appointed Executive Staff

Tay Yoshitani	Chief Executive Officer
Linda J. Strout	Deputy Chief Executive Director
Mark Reis	Managing Director, Aviation Division
Charles Sheldon	Managing Director, Seaport Division
Dan Thomas	Chief Financial Officer
John Okamoto	Chief Administrative Officer
Craig Watson	General Counsel

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Port Commission of
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 and for the year ended December 31, 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 audit. The financial statements of the Port of Seattle as of and for the years ended December 31, 2005 and 2004 were audited by other auditors, whose report dated June 6, 2006 expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides 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, 2006 and the changes in financial position and cash flows for the Enterprise Fund for the year then ended, and the changes in net assets for the Warehousemen's Pension Trust Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 10 through 17 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 audit was 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 audit of the basic financial statements and, accordingly, we express no opinion on them.

Moss Adams LLP

Seattle, Washington
April 20, 2007

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, 2006, 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, 2005 and 2004. 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 Economic Development 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):

	2006	2005	2004
ASSETS:			
Current, long-term, and other assets	$ 799.1	$ 934.6	$ 846.1
Capital assets	4,909.8	4,553.2	4,154.8
Total assets	$ 5,708.9	$ 5,487.8	$ 5,000.9
LIABILITIES:			
Current liabilities	$ 388.7	$ 323.1	$ 264.6
Long-term liabilities	3,035.7	3,081.2	2,812.4
Total liabilities	$ 3,424.4	$ 3,404.3	$ 3,077.0
NET ASSETS:			
Invested in capital assets—net of related debt	$ 2,046.7	$ 1,960.2	$ 1,830.0
Restricted assets	53.6	21.6	21.9
Unrestricted net assets	184.2	101.7	72.0
Total net assets	$ 2,284.5	$ 2,083.5	$ 1,923.9

Assets exceeded liabilities by $2.3 billion, a $201.0 million increase over total net assets as of December 31, 2006 compared to $2.1 billion, a $159.6 million increase over total net assets as of December 31, 2004. For the year ended December 31, 2006 and 2005, 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 and Seaport 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 2005 to 2006 and from 2004 to 2005, there was an increase of $86.5 million and $130.2 million, respectively, in invested in capital assets net of related debt from the continued creation of new assets. The increase in restricted assets is largely due to the new car rental fee that went in effect into 2006.

As of December 31, 2006 and 2005, the unrestricted net assets of $184.2 million and $101.7 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 $160.2 million and $136.4 million for the year ended 2006, and 2005, respectively. The increase in this category from 2005 is largely due to liquidating debt service reserves, generating more non-aeronautical net operating income and limiting the use of this fund on capital projects.

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):

	2006	2005	2004
Operating revenues	$ 448.5	$ 416.5	$ 377.2
Operating expenses	223.6	226.2	223.3
Operating income before depreciation	224.9	190.3	153.9
Depreciation	140.2	129.8	110.2
Operating income	84.7	60.5	43.7
Nonoperating income—net	116.3	99.1	157.4
Increase in net assets	201.0	159.6	201.1
Net assets—beginning of year	2,083.5	1,923.9	1,722.8
Net assets—end of year	$ 2,284.5	$ 2,083.5	$ 1,923.9

Financial Operation Highlights

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

	2006	2005	2004
OPERATING REVENUES:			
Services	$ 161.2	$ 158.4	$ 140.2
Property rentals	273.5	247.8	211.8
Fuel hydrant facility revenues	8.1	3.5	0.7
Security grant and contract revenues	5.7	6.8	24.5
Total	$ 448.5	$ 416.5	$ 377.2

During 2006, operating revenue within the enterprise fund increased 7.7% from $416.5 million to $448.5 million. Aviation operating revenues increased $25.7 million due to (1) an increase in parking revenues from higher numbers of long-term transactions and rate increases for daily and weekly parking, (2) an increase in space rentals from rate increases to recover increased debt service costs relating to new facilities, and (3) a one time easement payment from Sound Transit. Seaport revenues increased $6.3 million from 2005 due to (1) the refunding of 1999A Special Facilities Revenue Bonds (Terminal 18 Project) which has reduced the amount of debt service being offset against lease revenue contributing to a favorable increase, (2) full year impact of 2005 increase in number of acres leased to container terminal tenants, (3) increase in the number of cruise passengers and favorable impact of new lease agreement with cruise terminal operator, and (4) increased occupancy and activity in commercial real estate properties.

During 2005, operating revenues within the enterprise fund increased 10.4% from $377.2 million to $416.5 million. Aviation operating revenues increased $44.0 million due to a combination of (1) an increase in property rentals charged to recover costs associated with new facilities coming into service in 2005 such as the Central Terminal, (2) an increase in Public Parking due to increased length of stay resulting from the new weekly parking rate program, (3) an increase in the minimum annual guarantee from Rental Car companies, (4) an increase of concessions due to the opening of the Central Terminal, (5) increased rent due to higher land value from new appraisals, and (6) an increase in Fuel Hydrant Special Facilities revenue based on the debt service requirements. Seaport Division revenues decreased $4.8 million due to a $17.7 million decline in security grant revenues from 2004 which was partially offset by a $12.9 million increase in operating revenues. Seaport operating revenues increased due to a combination of (1) an increase in acres leased to container terminal tenants, (2) a July 1st scheduled increase in the rate per acre charged to container terminal tenants, (3) an increase in container terminal volumes resulting in higher revenue from crane rentals, (4) an increase in grain volume and the full year impact of a new lease agreement with the grain terminal operator, and (5) an increase in the number of calls and cruise passengers through the cruise terminals.

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

	2006	2005	2004
OPERATING EXPENSES BEFORE DEPRECIATION:			
Operations and maintenance	$ 173.2	$ 166.9	$ 173.0
Earthquake repair expenses—net	(0.2)	2.1	(0.2)
Law enforcement	18.0	17.9	17.4
Administration	33.8	31.6	30.9
Environmental—net	(1.2)	7.7	2.2
Total operating expenses before depreciation	$ 223.6	$ 226.2	$ 223.3

During 2006, operating expenses declined from $226.2 million to $223.6 million between years. Aviation Division expenses increased $5.8 million primarily due to (1) an increase in maintenance wages and benefits along with slight increase in headcounts, (2) increase in utility costs, and (3) increases in administration expenses mainly due to salary increases from job evaluations in several departments and less salaries being charged to capital projects. Seaport Division operating expenses decreased $8.2 million from 2005. This was primarily due to a decrease in the environmental reserve for one of the exposure sites resulting from the change in scope regarding future environmental cleanup requirements and related costs triggering the change in estimates recorded in the previous year.

During 2005, operating expenses increased slightly from $223.3 million to $226.2 million. Aviation Division operating expenses increased $13.2 million between years. Fluctuations in expense categories in Aviation from 2004 to 2005 include (1) an increase in earthquake expenses from a reduction in reimbursement amounts originally anticipated from the Federal Emergency Management Association (FEMA) from the February 2001 earthquake, (2) an increase in salaries, wages, and benefits expense due to general annual salaries increases and the continuing increasing costs of healthcare benefits, and (3) less salaries and benefits and overhead being charged to capital projects due to a decrease in chargeable construction activity. Seaport Division operating expenses decreased $10.5 million primarily as a result of a decrease in Seaport security grant reimbursable expenditures from the Operation Safe Commerce program.

As a result of the above, 2006 operating income before depreciation increased $34.6 million as compared to 2005 and increased $36.4 million in 2005 from 2004.

Depreciation expense in 2006 was $10.4 million and $19.6 million above 2005 and 2004 amount, respectively, primarily in the Aviation Division, due to overall increase in additions to capital assets year over year.

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

	2006	2005	2004
NONOPERATING INCOME (EXPENSE):			
Ad valorem tax levy revenue	$ 62.7	$ 62.4	$ 59.4
Passenger facility charges revenue and related interest income	59.1	56.5	56.1
Customer facility charges revenue and related interest income	17.2		
Grants and donations	127.5	109.7	118.4
Investment income—net	28.9	14.6	6.2
Revenue and capital appreciation bond interest expense	(101.5)	(85.5)	(58.4)
Passenger facility charges revenue bond interest expense	(12.3)	(12.6)	(5.9)
General obligation bond interest expense—net	(15.8)	(12.6)	(11.5)
Public expense	(11.0)	(4.4)	(0.6)
Other expense—net	(38.5)	(29.0)	(6.3)
Total	$ 116.3	$ 99.1	$ 157.4

During 2006, nonoperating income—net was $116.3 million or $17.2 million higher than 2005. This was due to a new car rental fee commencing in 2006 for $17.2 million; an increase of $17.8 million in grant revenues primarily in Airport Improvement Program (AIP) grants and the East Marginal Way project along with $14.3 million in investment income, net, due to favorable market conditions. These favorable variances were offset by an increase in the loss from demolition of assets of which $15.9 million mostly related to assets that were placed out of service in prior years which are identified by the Port during its full physical inventory of capital assets, and an increase in revenue bond interest expense largely due to 2006 including a full year of interest expense for the 2005 bond issue and less capitalized interest calculated in 2006 relating to the fuel hydrant bonds since the facility was fully operational in February of the current year. There was also an increase in public expenses for the year relating to the East Marginal Way project of which a significant portion was reimbursed by the grant proceeds mentioned above.

During 2005, nonoperating income—net decreased $58.3 million, largely due to a $34.9 million increase in bond interest expense for the year related to the 2005 revenue bond issue and less capitalized interest due to a decrease in average construction expenditures from prior year. Other significant fluctuations included an $8.8 million decrease in grant revenues between years, an increase in public expense spending and a $25.6 million increase in losses from the demolition of assets and asset write-downs for impairment of which $10.0 million related to demolition of assets in prior years that were identified in a 2005 physical inventory of capital assets. This was partially offset by an $8.4 million increase in investment income.

Increase in net assets for 2006 and 2005 was $201.0 million and $159.6 million, respectively, compared to $201.1 million in 2004. For 2006, there were increases in operating income before depreciation and nonoperating income partially offset by higher depreciation expense for the year. For 2005, though operating income before depreciation increased significantly, it was more than offset by increases in depreciation expense and lower nonoperating income.

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 over 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 at as of December 31, 2006, 2005 and 2004, and changes in net assets from the date that the Plan was legally acquired by the Port, May 25, 2004, through December 31, 2006 (in millions).

	2006	2005	2004
Total assets	$ 13.0	$ 12.3	$ 12.7
Total liabilities			
Total net assets	$ 13.0	$ 12.3	$ 12.7
Total additions	$ 2.9	$ 1.7	$ 2.5
Total deductions	2.2	2.0	1.6
Increase (decrease) in net assets	0.7	(0.3)	0.9
Net assets—beginning of period	12.3	12.6	11.7
Net assets—end of period	$ 13.0	$ 12.3	$ 12.6

Total net assets as of December 31, 2006 increased by $0.7 million over total net assets as of December 31, 2005 due to a $0.9 million increase in investment at fair value resulted from favorable market conditions compared to 2005 and an increase of $0.5 million pension contribution from the Port compared to 2005. These increases were partially offset by a slight increase in benefit payments compared to 2005.

The 2005 Statement of Net Assets reflects a $2.0 million decrease in pension contribution receivable from December 31, 2004 due to the timing of contribution disbursed from the Port, while investments at fair value increased by $1.6 million due to the additional pension contribution made in 2005 and favorable market conditions compared to 2004. Total net assets as of December 31, 2005 decreased slightly by $0.3 million over total net assets as of December 31, 2004 due to a slight increase in benefits payments made in 2005.

Additional information on the Port's pension trust fund can be found in Note 13 in the accompanying notes to the financial statements.

CAPITAL ASSETS

The Port's capital assets as of December 31, 2006, amounted to $4.9 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 2006 was 7.8%, or $356.6 million.

During 2006, completed projects totaling $681.5 million were closed from construction-in-progress to their respective capital accounts. The major completed projects were (in millions):

Airport:	
Third Runway — Embankment and Mitigation	$ 255.9
Baggage Systems	122.1
Fuel Hydrant System	87.4
Des Moines Creek	15.8
Comprehensive Storm Water Management	15.3
Police Department Office Consolidation	14.8
Seaport:	
Shilshole Bay Marina — Utility Infrastructure Upgrades and Phase 1 and Part of Phase 2 of the Dock Replacement	$ 38.9
Terminal 91 Upgrades	27.6

Capital asset acquisitions are capitalized at cost and depreciated using the straight-line method. During 2006, the Port collected $62.8 million in property taxes through a King County ad valorem tax levy. Through this tax levy, passenger facility charges, 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 4 in the accompanying notes to the financial statements.

DEBT ADMINISTRATION

As of December 31, 2006, the Port had outstanding revenue bonds of $2.5 billion, a $39.0 million increase from 2005. On June 6, 2006, the Port issued $40.1 million in Intermediate Lien Revenue Refunding Bonds (Series 2005C). On June 28, 2006, the Port issued $124.6 million in Intermediate Lien Revenue Refunding Bonds (Series 2006). During 2006, subordinate lien revenue notes (tax-exempt commercial paper) increased by $90.4 million from $70.2 million in 2005 to $160.6 million in 2006.

In March 2007, the Port issued $27.9 million of Series 2007A and $200.1 million of Series 2007B revenue bonds to finance or refinance a portion of the costs of capital improvements to the Port's seaport facilities, to satisfy the debt service reserve fund requirement, to capitalize a portion of the interest on the Series 2007 Bonds, and to pay the costs of issuing the Series 2007 Bonds.

As of December 31, 2006, the Port had outstanding general obligation bonds ("GO" bonds) of $416.6 million, a $36.4 million increase from 2005. On January 5, 2006, the Port issued $61.6 million in Series 2006A Limited Tax General Obligation Refunding Bonds to partially refund Series 2000A Limited Tax General Obligation Bonds, and fully refund Series 1999A Special Facilities Revenue Bonds (Terminal 18 Project).

As of December 31, 2006, the Port had outstanding passenger facility charge ("PFC") revenue bonds of $227.4 million, an $8.2 million decrease from 2005 due to scheduled principal payments.

As of December 31, 2006, the Port had outstanding Fuel Hydrant Special Facility Revenue bonds of $119.0 million. 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.

As of December 31, 2006, the Port had outstanding conduit debt obligations of which $128.9 million relates to Terminal 18 special facility bonds, which are not a liability or contingent liability of the Port under GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*. These bonds are not an obligation of the Port; no tax funds or revenue of the Port (other than Terminal 18 lease revenue) is pledged to pay the debt service on the bonds. The Terminal 18 facility is leased to the trustee for the benefit of bondholders, and the related bonds are not recorded in the Port’s financial statements.

Below are the underlying ratings for Port of Seattle bonds as of December 31, 2006. 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-

In February 2007, Standard and Poor’s (S&P) raised its ratings on the Port’s Intermediate Lien and Subordinate Lien revenue bonds to “A+” and “A”, respectively.

Additional information on the Port’s debt activity can be found in Note 6 and 7 in the accompanying notes to the financial statements.

PORT OF SEATTLE

ENTERPRISE FUND

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2006 AND 2005
(In thousands)

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 79,231	$ 28,607
Restricted cash and cash equivalents:		
Fuel hydrant assets held in trust	11,714	14,183
Contract retainage	608	541
Short-term investments	157,632	173,520
Restricted short-term investments:		
Bond funds	74,267	186
Accounts and contracts receivable, less allowance of $972 and $1,788 for doubtful accounts	31,592	31,385
Federal grants-in-aid receivable	18,553	35,231
Earthquake-related receivables	1,831	1,687
Taxes receivable	1,541	1,553
Materials and supplies	4,259	4,203
Prepayments and other current assets	5,637	3,088
Deferred assets	1,328	1,411
Total current assets	388,193	295,595
NONCURRENT ASSETS:		
Restricted long-term investments:		
Bond funds	354,756	577,448
Fuel hydrant assets held in trust	8,732	8,637
Deferred Finance Costs, net of accumulated amortization of $27,680 and $22,958	39,271	51,140
Other long-term assets	8,134	1,780
CAPITAL ASSETS:		
Land and air rights	1,285,785	1,182,050
Facilities and improvements	3,486,748	3,164,756
Equipment, furniture, and fixtures	318,588	306,421
Total capital assets	5,091,121	4,653,227
Less accumulated depreciation	1,032,483	996,082
Construction work in progress	851,193	896,048
Total capital assets—net	4,909,831	4,553,193
Total noncurrent assets	5,320,724	5,192,198
TOTAL	$ 5,708,917	$ 5,487,793

See notes to financial statements.

LIABILITIES AND NET ASSETS	2006	2005
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 60,171	$ 80,201
Payroll and taxes payable	27,141	29,587
Bond interest payable	41,662	41,636
Lease deposits and customer advances	6,528	28,394
Current security fund liability	14,204	
Current maturities of long-term debt	239,005	143,245
Total current liabilities	388,711	323,063
LONG-TERM LIABILITIES:		
Accrued environmental expenses	8,684	7,241
Accrued long-term expenses	4,470	2,375
Total long-term liabilities	13,154	9,616
LONG-TERM DEBT—Less current maturities:		
Revenue bonds	2,254,320	2,309,635
General obligation bonds	397,835	362,315
Passenger facility charges revenue bonds	218,760	227,405
Fuel hydrant special facility bonds	116,785	119,015
Unamortized bond premiums—net of discounts and amortization	34,796	53,208
Total long-term debt	3,022,496	3,071,578
Total liabilities	3,424,361	3,404,257
COMMITMENTS AND CONTINGENCIES (Notes 10 and 11)		
NET ASSETS:		
Invested in capital assets—net of related debt	2,046,683	1,960,209
Restricted net assets	53,646	21,580
Unrestricted net assets	184,227	101,747
Total net assets	2,284,556	2,083,536
TOTAL	$ 5,708,917	$ 5,487,793

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, 2006, 2005 AND 2004
(In thousands)

	2006	2005	2004
OPERATING REVENUES:			
Services	$ 161,200	$ 158,462	$ 140,189
Property rentals	273,529	247,817	211,848
Fuel hydrant facility revenues	8,077	3,491	689
Security grant and contract revenues	5,643	6,755	24,476
Total revenue	448,449	416,525	377,202
OPERATING EXPENSES BEFORE DEPRECIATION:			
Operations and maintenance	173,198	166,920	172,983
Earthquake repair expenses—net of recoveries	(179)	2,130	(195)
Law enforcement	18,017	17,920	17,392
Administration	33,790	31,486	30,890
Environmental—net	(1,262)	7,739	2,200
Total operating expenses before depreciation	223,564	226,195	223,270
NET OPERATING INCOME BEFORE DEPRECIATION	224,885	190,330	153,932
DEPRECIATION	140,190	129,788	110,175
OPERATING INCOME	84,695	60,542	43,757
NONOPERATING INCOME (EXPENSE):			
Ad valorem tax levy revenue	62,691	62,417	59,357
Passenger facility charges revenue and related interest income	59,141	56,506	56,129
Customer facility charges revenue and related interest income	17,188		
Grants and donations	127,524	109,655	118,428
Investment income—net	28,895	14,651	6,240
Revenue and capital appreciation bond interest expense	(101,491)	(85,502)	(58,401)
Passenger facility charges revenue bond interest expense	(12,258)	(12,604)	(5,923)
General obligation bond interest expense—net	(15,754)	(12,629)	(11,520)
Public expense	(11,027)	(4,404)	(665)
Other expense—net	(38,584)	(29,006)	(6,288)
Total nonoperating income—net	116,325	99,084	157,357
INCREASE IN NET ASSETS	201,020	159,626	201,114
TOTAL NET ASSETS:			
Beginning of year	2,083,536	1,923,910	1,722,796
End of year	$ 2,284,556	$ 2,083,536	$ 1,923,910

See notes to financial statements.

PORT OF SEATTLE

ENTERPRISE FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(In thousands)

	2006	2005	2004
OPERATING ACTIVITIES:			
Cash received from customers	$ 434,509	$ 441,908	$ 356,330
Cash paid to suppliers for goods and services	(109,103)	(83,018)	(98,055)
Cash paid to employees for salaries, wages, and benefits	(146,725)	(141,191)	(141,120)
Security grant revenues	5,643	6,755	24,476
Other	2,332	1,794	(1,970)
Net cash provided by operating activities	186,656	226,248	139,661
NONCAPITAL AND RELATED FINANCING ACTIVITIES:			
Public expense disbursements	(11,027)	(4,404)	(667)
Ad valorem tax levy receipts	62,703	62,387	59,471
Receipts from implicit financing	5,802	3,764	
Net cash provided by noncapital and related financing activities	57,478	61,747	58,804
CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuance and sale of revenue and Fuel Hydrant bonds	168,720	500,341	24,403
Proceeds from issuance of commercial paper	162,890	74,175	33,685
Proceeds from issuance and sale of general obligation (GO) bonds	7,729		320,022
Proceeds used for refunding of revenue and GO bonds	(187,029)	(173,349)	(167,774)
Acquisition and construction of capital assets	(457,533)	(519,384)	(472,502)
Principal payments on revenue bonds, PFC bonds, GO bonds, and commercial paper	(146,090)	(113,490)	(154,040)
Interest payments on revenue and fuel hydrant bonds, PFC bonds, GO bonds, and commercial paper	(158,776)	(146,005)	(137,049)
Proceeds from sale of capital assets	288	59	14,918
Receipts from federal grants-in-aid	144,203	108,766	98,592
Passenger facility charges receipts	58,059	55,904	54,751
Customer facility charges receipts	15,486		
Net cash (used in) capital and related financing activities	(392,053)	(212,983)	(384,994)
INVESTING ACTIVITIES:			
Purchases of investment securities	(282,359)	(501,327)	(850,989)
Proceeds from sales and maturities of investments	448,573	352,936	1,030,330
Interest received on investments	29,927	22,549	14,887
Net cash provided by (used in) investing activities	196,141	(125,842)	194,228
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	48,222	(50,830)	7,699
CASH AND CASH EQUIVALENTS:			
Beginning of year	43,331	94,161	86,462
End of year	$ 91,553	$ 43,331	$ 94,161

See notes to financial statements.

(Continued)

PORT OF SEATTLE

ENTERPRISE FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(In thousands)

	2006	2005	2004
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	$ 84,695	$ 60,542	$ 43,757
Miscellaneous nonoperating income (expense)	2,332	1,794	(1,970)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	140,190	129,788	110,175
Decrease (increase) in assets:			
Accounts and contracts receivable	774	397	2,522
Earthquake-related receivables	(144)	2,205	(250)
Maintenance supplies, prepaid items, and other	(8,840)	3,531	(4,556)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	(24,673)	7,697	(7,162)
Accrued earthquake expenses	(865)	(414)	(1,850)
Payroll and taxes payable	(2,446)	(356)	(2,537)
Accrued environmental expenses	1,443	(1,938)	(98)
Lease deposits and customer advances	(20,014)	23,002	1,630
Current security fund liability	14,204		
Net cash provided by operating activities	$ 186,656	$ 226,248	$ 139,661
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets through refunding Series 1999A Special Facilities Revenue Bonds	$ 49,521	$	$

See notes to financial statements. (Concluded)

PORT OF SEATTLE

WAREHOUSEMEN'S PENSION TRUST FUND

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2006 AND 2005
(In thousands)

	2006	2005
ASSETS:		
Cash and cash equivalents	$ 137	$ 130
Investments—fair value:		
Common stock	7,641	6,656
Corporate bonds	5,093	5,415
Other assets	143	137
Total assets	13,014	12,338
LIABILITIES—Accounts payable		(3)
NET ASSETS—Held in trust for pension benefits and other purposes	$ 13,014	$ 12,335

(A schedule of funding progress is presented on page 50)

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, 2006, 2005 AND
THE PERIOD MAY 25, 2004 (DATE OF INCEPTION) THROUGH DECEMBER 31, 2004
(In thousands)

	2006	2005	2004
ADDITIONS:			
Employer contributions	$ 1,500	$ 1,000	$ 2,000
Investments earnings:			
Interest	2	182	142
Dividends	372	233	62
Gain on investments sold	126	1,070	253
Net (decrease) increase in fair value of investments	900	(680)	131
Less investment expense	(16)	(76)	(44)
Net investment earnings	1,384	729	544
Total additions	2,884	1,729	2,544
DEDUCTIONS:			
Benefits	2,117	1,932	1,509
Administrative expenses	40	40	27
Professional fees	48	84	37
Total deductions	2,205	2,056	1,573
CHANGE IN NET ASSETS	679	(327)	971
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES:			
Beginning of period	12,335	12,662	11,691
End of period	$ 13,014	$ 12,335	$ 12,662

See 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 eight foreign-flag passenger air carriers providing daily nonstop service from the Airport to 86 cities, including 17 foreign cities. The Seaport Division ("Seaport") focuses primarily on containerized cargo. 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 Port is a seaport landlord with major tenants, including shipping companies, terminal operators, and other marine-related businesses. Both of these divisions have labor workforces subject to various collective bargaining agreements. These workforces support the operations and maintenance of the divisions. The Economic Development Division integrates the components of business and international trade development, real estate development, and regional transportation.

Within the Enterprise Fund, the Port segregates nonoperating expenses made to public entities which are funded by the ad valorem tax levy. This includes expenses for district schools and infrastructure improvements to the state and region in conjunction with other agencies. These projects are controlled by other governmental entities and are not reflected in the Port's financial statements.

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, entities which are legally separate organization 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 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 with 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.

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 Government 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, legal, insurance, and earthquake reserves; allowances for doubtful accounts; grants-in-aid receivable; and arbitrage liabilities. Actual results could differ from those estimates.

Significant Risks and Uncertainties—The Port is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include economic conditions, collective bargaining disputes, security, 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 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. While most provisions remain the same as the prior agreement, key changes include the following: cost recovery formulas were modified to permit 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), and revenue sharing was eliminated commencing in 2006. The signatory airlines' receipt of revenue sharing was $23,558,000 and $17,716,000 in 2005 and 2004, respectively.

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 value 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 upon passenger enplanement.

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. 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 record purchases used for repair and maintenance as expenditures while recording purchases used for capital projects as construction work in progress.

Employee Benefits—Eligible Port employees earn paid time off annually, depending on length of service. A stipulated maximum of paid time off and extended illness leave may be accumulated by employees. 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. 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. 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 is to accrue amounts for environmental liabilities when they are determined to be probable, reasonably estimable, and required by law. When the Port's obligation becomes fixed or reliably determinable, the liability is discounted using the Port's cost of capital and the projected periods of cash payments. Insurance proceeds, if any, are evaluated separately from the Port's liability. Costs incurred for environmental remediation that extend the life, increase the capacity, or improve the safety or efficiency of property owned by the Port are capitalized. The Port expenses costs which do not meet these criteria and accrues for losses associated with such environmental remediation obligations.

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 defeasing bonds to place the proceeds of the new bonds 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 related to the 2006, 2005, and 2004 refundings is detailed below as of December 31 (in thousands):

	2006	2005
2006 Refunding		
Series 2000A General Obligation Bonds	$ 7,300	$
Series 2000A Revenue Bonds	130,690	
Series 1999A Special Facilities Revenue Bonds (Terminal 18 Project)	59,740	
2005 Refunding		
Series 1996A Revenue Bonds		31,820
Series 1997A Revenue Bonds	109,550	109,550
2004 Refunding		
Series 1996B Revenue Bonds		2,810
Series 1998A Revenue Bonds	13,340	13,845
Total	$ 320,620	$ 158,025

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 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. These transactions, which include taxes, intergovernmental grants, entitlements, and other financial assistance, are reported as revenue in the statements of revenues, expenses, and changes in net assets.

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, and other revenues generated from nonoperating sources are classified as nonoperating.

Recently Issued Accounting Pronouncements—In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement 1*, which amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. The statistical section is a required part of a comprehensive annual financial report ("CAFR"), although governments are not required to prepare a statistical section if they do not present their basic financial statements within a CAFR. These circumstances are not altered by this statement. However, this statement does apply to any statistical section that accompanies a government's basic financial statements. This statement is effective for statistical sections prepared for periods beginning after June 15, 2005. The required disclosures are presented in the statistical section of the CAFR.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. This statement addresses financial statement and disclosure requirements for reporting by employers that include other postemployment benefits plan assets as trust or agency funds in their financial reports. This statement is effective for periods beginning after December 15, 2006. Although the Port has not yet adopted this statement, the Port included $12,886,000 of other postemployment benefits expense for the adoption of this statement in the 2007 budget. This preliminary estimate is subject to change upon the completion of actuarial valuations in late 2007.

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*, which establishes accounting standards for voluntary and involuntary termination benefits. This statement requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits, and significant methods and assumptions used to determine termination benefit liabilities. This statement is effective for periods beginning after June 15, 2005. The adoption of this statement did not have a material effect on the Port's financial statements.

In December 2006, the GASB issued Statement No.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, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. 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*, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for fiscal years beginning after November 15, 2007, on a prospective basis. While the adoption of this statement is not likely to have a material effect on the Port's financial statements, the impact of adopting the new rule is dependent on events in future periods, and as such, an estimate of the impact cannot be determined.

Reclassifications and Presentation—Certain reclassifications of prior years' balances have been made to conform with the current year presentations.

2. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Deposits—All deposits are either covered by the Federal Depository 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 depositaries 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 depositaries 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 land bank bonds and federal national mortgage association notes, 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.

The Port's investment policy limits the maximum maturity of any security purchased to five years. The Port's investment policy allows for 100% of the portfolio to be invested in United States Treasury bills, notes, and bonds. The Port's investment policy limits government agency securities to 60%, certificates of deposit to 15%, banker's acceptances to 20%, commercial paper to 20% 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 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.

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, 2006 and 2005 (in thousands). These tables do not address investments of debt proceeds held by bond trustees. As of December 31, 2006 and 2005, the Port's investment pool had 10.2% and 3.7% 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) Less Than 1	1-3	More Than 3	Percentage of Total Portfolio
2006					
Repurchase Agreements *	$ 67,840	$ 67,840	$	$	10.2 %
Commercial Paper	29,918	29,918			4.5 %
Federal Agencies Securities:					0.0 %
Federal Farm Credit Banks	48,011		27,889	20,122	7.2 %
Federal Home Loan Bank	238,641	24,995	73,143	140,503	35.8 %
Federal Home Loan Mortgage Corporation	89,558		44,484	45,074	13.4 %
Federal National Mortgage Association	21,015	14,934	6,081		3.2 %
United States Treasury Notes	156,581	156,581			23.5 %
United States Treasury Bills	14,930	14,930			2.2 %
Total cash, cash equivalents, and investments	$ 666,494	$ 309,198	$ 151,597	$ 205,699	100.0 %
Percentage of Total Portfolio	100.0 %	46.4 %	22.7 %	30.9 %	
2005					
Repurchase Agreements *	$ 29,147	$ 29,147	$	$	3.7 %
Commercial Paper					0.0 %
Federal Agencies Securities:					
Federal Farm Credit Banks	37,914			37,914	4.9 %
Federal Home Loan Bank	237,463	15,594	88,602	133,267	30.4 %
Federal Home Loan Mortgage Corporation	142,102	-	68,380	73,722	18.2 %
Federal National Mortgage Association	30,009	10,099	19,910		3.8 %
United States Treasury Notes	206,305	50,652	155,653		26.4 %
United States Treasury Bills	97,362	97,362			12.5 %
Total cash, cash equivalents, and investments	$ 780,302	$ 202,854	$ 332,545	$ 244,903	100.0 %
Percentage of Total Portfolio	100.0 %	26.0 %	42.6 %	31.4 %	

* Included cash equivalents balances

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 the 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 Seattle-Tacoma International 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, 2006 and 2005 (in thousands). As of December 31, 2006 and 2005, 42.7% and 37.8%, respectively, of the Fuel Hydrant Investment Pool was invested in "AAA" rated government agency securities and the remaining amount 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 is invested in high-quality short-term money market instruments.

		Maturities (in Years)			Percentage
Investment Type	**Fair Value**	**Less Than 1**	**1-3**	**More Than 3**	**of Total Portfolio**
2006					
Wells Fargo Government Institutional Money Market Funds	$ 11,714	$ 11,714	$	$	57.3 %
Federal Agencies Securities:					
Federal National Mortgage Association	8,732		8,732		42.7 %
Total	$ 20,446	$ 11,714	$ 8,732	$	100.0 %
Percentage of Total Portfolio	100.0 %	57.3 %	42.7 %	0.0 %	
2005					
Wells Fargo Government Institutional Money Market Funds	$ 14,183	$ 14,183	$	$	62.2 %
Federal Agencies Securities:					
Federal National Mortgage Association	8,637		8,637		37.8 %
Total	$ 22,820	$ 14,183	$ 8,637	$	100.0 %
Percentage of Total Portfolio	100.0 %	62.2 %	37.8 %	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 five years. As of December 31, 2006 and 2005, the effective duration of the Port's Investment Pool portfolio was approximately one and one-third years and one and one-half years, 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, 2006, and 2005, the effective duration of the Fuel Hydrant Investment Pool was seven months and ten 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, 2006 and 2005, the bank balance of $11,714,000 and $14,183,000, 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.

3. EARTHQUAKE

On February 28, 2001, an earthquake occurred in the Puget Sound area. The Port has insurance policies, in addition to financial relief from FEMA and the State, to cover a significant portion of the property losses incurred. The Port has established a reserve for its earthquake expenditures. The total cost of earthquake damage on its various Aviation and Seaport properties is estimated to be about $28,481,000, with anticipated insurance/FEMA/State/Federal Aviation Administration reimbursements of about $20,821,000. Accrued earthquake expenses which remain as yet to be expended for repairs were $49,000 and $914,000 at December 31, 2006 and 2005, respectively. The remaining earthquake related-receivable balances were $1,831,000 and $1,687,000 at December 31, 2006 and 2005, respectively.

4. CAPITAL ASSETS

Capital assets consist of the following at December 31, 2006 and 2005 (in thousands):

	Beginning of Year	Additions	Retirements	End of Year
2006				
Capital assets, not being depreciated:				
Land and air rights	$ 1,182,050	$ 104,057	$ (322)	$ 1,285,785
Art collections and others	5,589	753		6,342
Total capital assets not being depreciated	1,187,639	104,810	(322)	1,292,127
Capital assets being depreciated:				
Facilities and improvements	3,164,527	444,709	(122,718)	3,486,518
Equipment, furniture, and fixtures	301,061	33,665	(22,250)	312,476
Total capital assets being depreciated	3,465,588	478,374	(144,968)	3,798,994
Total capital assets	4,653,227	583,184	(145,290)	5,091,121
Less accumulated depreciation for:				
Facilities and improvements	(819,844)	(112,728)	85,414	(847,158)
Equipment, furniture, and fixtures	(176,238)	(27,462)	18,375	(185,325)
Total accumulated depreciation	(996,082)	(140,190)	103,789	(1,032,483)
Construction work in progress	896,048	496,739	(541,594)	851,193
Total capital assets—net	$ 4,553,193	$ 939,733	$ (583,095)	$ 4,909,831
2005				
Capital assets, not being depreciated:				
Land and air rights	$ 1,133,320	$ 49,445	$ (715)	$ 1,182,050
Art collections and others	5,067	768	(246)	5,589
Total capital assets not being depreciated	1,138,387	50,213	(961)	1,187,639
Capital assets being depreciated:				
Facilities and improvements	2,889,936	353,287	(78,696)	3,164,527
Equipment, furniture, and fixtures	316,391	21,113	(36,443)	301,061
Total capital assets being depreciated	3,206,327	374,400	(115,139)	3,465,588
Total capital assets	4,344,714	424,613	(116,100)	4,653,227
Less accumulated depreciation for:				
Facilities and improvements	(771,694)	(99,296)	51,146	(819,844)
Equipment, furniture, and fixtures	(180,455)	(30,492)	34,709	(176,238)
Total accumulated depreciation	(952,149)	(129,788)	85,855	(996,082)
Construction work in progress	762,278	470,946	(337,176)	896,048
Total capital assets—net	$ 4,154,843	$ 765,771	$ (367,421)	$ 4,553,193

For the year ended December 31, 2006 and 2005, $41,160,000 and $28,765,000 was recorded in other expense—net, respectively, related to demolition costs, impairments, and asset sales. For the Aviation Division, $25,437,000 and $19,871,000 relate to losses from demolition in 2006 and 2005, respectively. For the Seaport Division, $15,695,000 and $8,993,000 relates to losses from demolition in 2006 and 2005, respectively, including an impairment loss of $571,000 on Pier 115 due to changes in regulation and use in 2005.

5. ACCOUNTING FOR LEASES

A significant portion of the Seaport terminal land, facilities, and equipment is leased to tenants under operating leases. Airport operating leases with minimum annual guarantees (primarily car rental agreements) and land rentals are not tied to the new signatory airline lease and operating agreement (“SLOA”).

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

Years Ending December 31	
2007	$ 96,950
2008	88,276
2009	78,229
2010	46,944
2011	45,699
Thereafter	1,345,098
Total	$ 1,701,196

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: $8,199,000 for 2007, $8,198,000 for 2008, $8,200,000 for 2009, $8,198,000 for 2010, $8,197,000 for 2011 and $175,591,000 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.

6. 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 passenger facility charges is pledged to secure passenger facilities charges revenue bonds. The Port also issues general obligation 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, 2006, 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 bonds:						
2000 GO bond	5.0–6.0	2007–2025	$ 104,435	$ 10,235	$	$ 94,200
2004 GO bond	4.5–5.25	2007–2023	275,790	14,975		260,815
2006 GO bond	3.75–5.0	2011–2029			61,630	61,630
Total			380,225	25,210	61,630	416,645
Revenue bonds:						
First lien:						
Series 1994 A	4.8	2007	3,525	1,680		1,845
Series 1994 C	4.8	2007	3,710	3,710		
Series 1996 B	6.0	2007–2008	50,260	43,305		6,955
Series 1997 A	6.0	2007	8,930	4,335		4,595
Series 1998 A	5.0–5.375	2007–2017	32,640	1,185		31,455
Series 2000 A	5.5–5.625	2007	130,690	130,690		
Series 2000 B	5.5–6.0	2007–2024	210,125	6,225		203,900
Series 2000 D	5.5–6.0	2007–2011	13,135	1,370		11,765
Series 2001 A	5.0	2024–2031	176,105			176,105
Series 2001 B	5.1–5.625	2007–2024	251,380	7,720		243,660
Series 2001 C	5.5–5.625	2012–2014	12,205			12,205
Series 2001 D	5.75	2007–2017	61,365	3,660		57,705
Series 2003 A	5.0–5.25	2010–2033	190,470	2,280		188,190
Series 2003 B	4.25–5.5	2007–2029	164,900			164,900
Series 2004	3.75–5.75	2007–2017	23,380	1,335		22,045
Total			1,332,820	207,495		1,125,325
Intermediate lien:						
Series 2005 A	5.0–5.25	2008-2035	403,095			403,095
Series 2005 B	5.0	2007-2009	9,395			9,395
Series 2005 C	5.0	2010-2017		530	40,120	39,590
Series 2006 A	4.75–5.0	2025-2030			124,625	124,625
Total			412,490	530	164,745	576,705
Subordinate lien:						
Series 1997	4.05 *	2022	$ 108,830	$	$	$ 108,830
Series 1998	4.6–5.375	2007–2017	19,425	1,230		18,195
Series 1999 A	4.75–5.5	2016–2024	121,840			121,840
Series 1999 B	5.25–5.5	2007–2016	96,075	6,830		89,245
Series 2003 C	3.55–3.67 *	2033	200,000			200,000
Series 2005	3.98 *	2035	62,925			62,925
Total			609,095	8,060		601,035

(Continued)

Bond Type (by Bond Issue)	Rates (%)	Maturity Dates	Beginning Balance	Principal Payments and Refunding	Issuance	Ending Balance
Commercial paper	3.49–3.68	2007	70,210	72,525	162,890	160,575
Revenue bond totals			2,424,615	288,610	327,635	2,463,640
Passenger facility charge revenue bonds:						
Series 1998 A	5.0–5.5	2016–2023	118,490			118,490
Series 1998 B	5.0–5.375	2007–2016	117,145	8,230		108,915
Total			235,635	8,230		227,405
Fuel hydrant special facility bonds	3.0–5.5	2007–2033	121,140	2,125		119,015
Bond total			3,161,615	324,175	389,265	3,226,705
Unamortized bond premiums—net of discounts and amortization			53,208			34,796
Total debt			3,214,823			3,261,501
Less current maturities of long-term debt			143,245			239,005
Long-term debt			$ 3,071,578			$ 3,022,496

* Variable interest rates as of December 31, 2006

(Concluded)

During January 2006, the Port issued $61,630,000 in Series 2006A Limited Tax General Obligation Refunding Bonds to partially refund Series 2000A Limited Tax General Obligation Bonds, and fully refund Series 1999A Special Facilities Revenue Bonds (Terminal 18 Project), conduit debt obligation. The economic gain resulting from the refunding transaction for the Series 2000A Limited Tax General Obligation Bonds was $458,000. 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 $783,000. There is no economic gain and no difference between the cash flows required to service the outstanding bonds and the cash flows required to service the new debt resulting from the refunding transaction for the Series 1999A Special Facilities Revenue Bonds (Terminal 18 Project), conduit debt obligation. Interest is payable on June 1 and December 1 of each year, commencing June 1, 2006. The Bonds are subject to optional redemption prior to maturity. The Bonds have coupon rates ranging from 3.75% to 5.00%, with maturities ranging from 2011 to 2029.

During June 2006, the Port issued $40,120,000 in Series 2005C Intermediate Lien Revenue Refunding Bonds to pay, or repay commercial paper issued to pay, a portion of the costs of the 2005 Bond Projects, to partially refund Series 1996B First Lien Revenue Bonds, to pay the costs of issuing the Series 2005C Bonds, and to purchase surety bonds to satisfy the Intermediate Lien Reserve Requirement. The economic gain resulting from the refunding transaction was $2,484,000. 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 $3,126,000. Interest on the Series 2005C Bonds is payable on March 1 and September 1 commencing on September 1, 2006. The Series 2005C Bonds are subject to optional redemption prior to their scheduled maturities. The Bonds have coupon rates of 5.00%, with maturities ranging from 2010 to 2017.

During June 2006, the Port issued $124,625,000 in Series 2006 Intermediate Lien Revenue Refunding Bonds to fully refund Series 2000A First Lien Revenue Bonds, to pay the costs of issuing the Series 2006 Bonds, and to purchase a surety bond to satisfy the Intermediate Lien Reserve Requirement in connection with the issuance of the Series 2006 Bonds. The economic gain resulting from the refunding transaction was $8,567,000. 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 $21,737,000. Interest on the Series 2006 Bonds is payable on February 1 and August 1 commencing on February 2007. The Series 2006 Bonds are subject to optional redemption prior to their scheduled maturities. The Bonds have coupon rates ranging from 4.75% to 5.00%, with maturities ranging from 2025 to 2030.

In March 2007, the Port issued $27,880,000 of Series A Revenue Bonds, and $200,115,000 of Series B Revenue Bonds to finance or refinance a portion of the costs of capital improvements to the Port's seaport facilities, to satisfy the debt service reserve fund requirement, to capitalize a portion of the interest on the Series 2007 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 2027.

During July 2005, the Port issued $404,595,000 of Series A Intermediate Lien Revenue and Refunding Bonds, $9,395,000 of Series B Intermediate Lien Revenue Refunding Bonds to pay, or repay commercial paper issued to pay, a portion of the costs of the 2005 Bond Projects, to refund certain of the Port's outstanding First Lien Bonds 1994A, 1994C, and 1997A partially, and 1996A fully, to pay a portion of the interest to accrue on the Series 2005A Bonds and on certain of the Port's outstanding First Lien Bonds and Subordinate Lien Bonds during construction, to pay the costs of issuing the Series 2005 A/B/C Bonds, and to purchase surety bonds to satisfy the Intermediate Lien Reserve Requirement. The economic gain resulting from the refunding transaction was $11,190,000. 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 $19,249,000. Interest on the Series 2005A Bonds is payable on March 1 and September 1 commencing on September 1, 2005. Interest on the Series 2005B Bonds is payable on January 1 and July 1 commencing January 1, 2006. The Series 2005A Bonds are subject to optional redemption prior to their scheduled maturities.

During August 2005, the Port issued $62,925,000 of Subordinate Lien Revenue Bonds to pay, or repay commercial paper issued to pay, a portion of the costs of the 2005 Bond Projects, to pay a portion of the interest to accrue on the 2005 Subordinate Lien Bonds during construction, and to pay the costs of issuing the Series 2005 Subordinate Lien Bonds. The Series 2005 Subordinate Lien Bonds are being issued initially as variable-rate bonds in the weekly mode. Interest on the Bonds during the weekly mode is to be payable on the first Wednesday of each month commencing September 7, 2005. The Series 2005 Subordinate Lien Bonds in the weekly mode are subject to mandatory tenders for purchase and to optional redemption prior to their scheduled maturity.

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 Seattle-Tacoma International 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. At December 31, 2006 and 2005, there was $20,446,000 and $22,820,000, respectively, of Fuel Hydrant Special Facility Revenue bond proceeds that remain unspent, of which $11,714,000 and $14,183,000, respectively, is comprised of short-term restricted cash and investments, while $8,732,000 and $8,637,000, respectively, is comprised of long-term restricted investments for the year ending December 31, 2006 and 2005.

At December 31, 2006, the construction of the fuel hydrant facility was fully operational in 2006. At December 31, 2005, construction work-in-progress includes $85,053,000, relating to the construction of the fuel hydrant facility. Facilities improvements include $16,482,000 for the year ended December 31, 2005 resulting from the purchase of a fuel farm system in 2004.

Fuel hydrant bonds in the amount of $116,785,000 and $119,015,000, respectively, are included in long-term debt on the statements of net assets as of December 31, 2006 and 2005.

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 outstanding totaled $160,575,000 and $70,210,000 at December 31, 2006 and 2005, respectively.

Passenger facility revenue bonds are secured by a lien pledge of the revenues generated from the passenger facility charges imposed by the Airport. The remaining revenue bonds are secured by a pledge of net revenues of the Port. The general obligation 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, 2006, the Port has estimated that arbitrage rebates of $1,675,000 existed in conjunction with its Series 2003 C revenue bonds. Amounts are recorded as accrued long-term expenses in the statements of net assets. The actual payment of arbitrage rebate is due in 2008 for the Series 2003 C revenue bonds. 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, 2006.

Interest expense costs capitalized were $31,220,000 and $37,527,000, and interest income capitalized was $77,000 and $868,000 for 2006 and 2005, respectively.

Aggregate annual payments on revenue and general obligation bonds and commercial paper outstanding at December 31, 2006 are as follows (in thousands):

	Principal	Interest	Total
2007	$ 239,005	$ 146,151	$ 385,156
2008	82,660	152,434	235,094
2009	88,685	148,038	236,723
2010	95,725	143,178	238,903
2011	100,830	138,043	238,873
2012–2016	572,175	600,585	1,172,760
2017–2021	606,765	443,952	1,050,717
2022–2026	623,120	265,667	888,787
2027–2031	428,565	145,661	574,226
2032–2036	389,175	33,410	422,585
	$3,226,705	$2,217,119	$5,443,824

The fair value of long-term debt was $3,372,566,000 and $3,311,950,000 as of December 31, 2006 and 2005, respectively. This fair value is estimated using quoted market prices.

7. CONDUIT DEBT

The Port has the following conduit debt obligations totaling $209,890,000 and $269,630,000 as of December 31, 2006 and 2005, 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. In January 2006, the Port issued $61,630,000 in Series 2006A Limited Tax General Obligation Refunding Bonds to partially refund Series 2000A Limited Tax General Obligation Bonds, and fully refund Series 1999A Special Facilities Revenue Bonds (Terminal 18 Project), conduit debt obligation. The Series 1999 B and C Special Facilities Revenue Bonds (Terminal 18 Project), conduit debt obligation outstanding amount is $128,890,000 at December 31, 2006. At December 31, 2006 and 2005, special facility revenues bonds outstanding are $128,890,000 and $188,630,000, 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, 2006 and 2005, industrial revenue bonds of $81,000,000, were outstanding.

8. LONG-TERM LIABILITIES

The following is a summary of the accrued environmental expenses, arbitrage rebate liability, accrued election expenses, and deferred revenue activities which make up the Port's long-term obligation balances for the years ended December 31, 2006 and 2005 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-Term Portion
2006						
Accrued environmental expenses	$ 19,476	$ 1,980	$ (7,333)	$ 14,123	$ 5,439	$ 8,684
Accrued arbitrage rebate liability	2,375		(700)	1,675		1,675
Accrued election expense		943		943		943
Deferred Revenue		3,496	(412)	3,084	1,232	1,852
Total long-term liabilities	$ 21,851	$ 6,419	$ (8,445)	$ 19,825		
2005						
Accrued environmental expenses	$ 21,262	$ 9,021	$ (10,807)	$ 19,476	$ 12,235	$ 7,241
Accrued arbitrage rebate liability	3,434		(1,059)	2,375		2,375
Total long-term liabilities	$ 24,696	$ 9,021	$ (11,866)	$ 21,851		

9. 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% percent 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 3.50%), 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, 2006, was $62,952,000.

The Port's contribution rates during 2006 expressed as a percentage of covered payroll for employer ranged from 2.25% to 3.50% 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 0.19%. For employees, the rate was 6.0% for PERS Plan I and a range of 2.25% to 3.50% 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
2006	$ 593,708	$ 1,602,797	$ 147,300
2005	826,240	972,701	77,071
2004	384,316	713,508	45,545

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, 2006, was $15,291,000.

The Port’s required contribution rates during 2006 expressed as a percentage of covered payroll for LEOFF Plan I was 0.0% for both employer and employee. For LEOFF Plan II (Firefighters), the range of rates was 4.20% to 4.72% for employer and 6.99% to 7.85% for employees. For LEOFF Plan II (Police), the range of rates was 6.99% to 7.85% for employer and 6.99% to 7.85% for employees. The employer rates do not include the employer administrative expense fees currently set at 0.18% for LEOFF Plan I and LEOFF Plan II (Firefighters) and 0.18% 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)
2006	$ 6,232	$ 294,488	$ 711,711
2005	795	193,645	578,911
2004	860	153,328	457,652

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

10. CONTINGENCIES

The Port is a defendant in various legal actions and claims, including environmental cleanup actions, which arise during the normal course of business, some of which may be covered by insurance. 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.

As of December 31, 2006, the Port's environmental reserves are anticipated to be spent over the following time frame in the following amounts (in thousands):

2007	$ 5,414
2008	5,706
2009	1,034
2010	343
2011	181
Thereafter	1,445
Total	$ 14,123

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.

11. COMMITMENTS

As of December 31, 2006, and 2005, the Port has authorized or made commitments for acquisition and construction as follows (in thousands):

	2006	2005
Funds committed:		
Seaport terminals	$ 85,426	$ 159,386
Airport facilities	597,772	612,810
Corporate	3,995	3,775
Economic and trade development	478	
Funds authorized but not yet committed:		
Seaport terminals	46,542	47,725
Airport facilities	191,522	97,177
Corporate	633	343
Economic and trade development		48
Total	$ 926,368	$ 921,264

12. BUSINESS INFORMATION

For the Enterprise Fund's two major business activities, operations consist of Seaport terminals and Airport facilities. Indirect costs have been allocated to Seaport terminals and Airport facilities using various methods based on estimated hours of work, revenue plus expenses, full-time equivalent units, 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 Airport's operating revenues are derived primarily from its airline agreements, concession agreements, and other business arrangements.

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

	2006	2005	2004
Seaport division:			
Property rentals	$ 71,314	$ 61,085	$ 51,119
Equipment rentals	10,441	11,245	9,922
Distribution and storage	7	8	16
Security grants	4,268	5,462	23,199
Other	24,475	26,454	24,814
Total Seaport division revenues	$ 110,505	$ 104,254	$ 109,070
Aviation division:			
Property rentals	$ 209,975	$ 189,915	$ 161,170
Landing fees	46,730	47,107	45,569
Parking	53,628	47,359	42,584
Security grants	1,276	1,162	1,196
Other	25,891	26,272	17,279
Total Aviation division revenues	$ 337,500	$ 311,815	$ 267,798

One customer represents 17.9%, 19.3%, and 18.7% of total Port's revenue in 2006, 2005, and 2004, respectively.

For the Seaport, the revenues from its major customers accounted for 41.4%, 36.5%, and 29.6% of total operating revenues in 2006, 2005, and 2004, respectively. For the Airport, the revenues from its major customers accounted for 23.8%, 36.8%, and 38.1% of total operating revenues in 2006, 2005, and 2004, respectively.

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

	2006	2005	2004
Seaport division:			
Revenues	$ 45,790	$ 38,049	$ 32,264
Number of major customers	2	2	2
Aviation division:			
Revenues	$ 80,364	$ 114,841	$ 101,978
Number of major customers	1	2	2
Total revenues from all major customers	$ 126,154	$ 152,890	$ 134,242
Total number of major customers	3	4	4

Financial information by division for the years ended December 31, 2006, 2005 and 2004, is as follows (in thousands):

	2006		2005		2004	
	Seaport	Airport	Seaport	Airport	Seaport	Airport
Revenue	$ 110,505	$ 337,500	$ 104,254	$ 311,815	$ 109,070	$ 267,798
Operations and maintenance	46,381	126,817	46,366	120,553	63,454	109,528
Earthquake repair expenses—net	3	(182)	17	2,113		(195)
Law enforcement	3,674	14,343	3,701	14,218	2,994	14,398
Administration	10,200	19,775	9,612	17,876	9,043	18,102
Environmental—net	(1,320)	58	7,468	271	2,217	(17)
Total operating expenses before depreciation	58,938	160,811	67,164	155,031	77,708	141,816
Net operating income before depreciation	51,567	176,689	37,090	156,784	31,362	125,982
Depreciation	35,490	104,590	37,002	92,677	35,813	74,269
Operating income (loss)	16,077	72,099	88	64,107	(4,451)	51,713
Nonoperating income (expense):						
Ad valorem tax levy revenue	61,518	1,174	55,650	6,766	59,357	
Passenger facility charges revenue and related interest income		59,141		56,506		56,129
Customer facility charges revenue and related interest income		17,188				
Grants and donations	10,408	116,783	3,691	104,980	2,876	115,312
Investment income—net	2,824	26,072	1,803	12,847	619	5,621
Revenue and capital appreciation bond interest expense	(7,569)	(93,922)	(7,032)	(78,470)	(6,422)	(51,979)
Passenger facility charges revenue bond interest expense		(12,258)		(12,604)		(5,923)
General obligation bond interest expense—net	(15,754)		(12,629)		(11,520)	
Public expense	(10,298)	(730)	(1,319)	(3,080)	(665)	
Other expense—net	(15,997)	(22,663)	(9,843)	(19,284)	2,690	(8,771)
Total nonoperating income—net	25,132	90,785	30,321	67,661	46,935	110,389
Increase in net assets	$ 41,209	$ 162,884	$ 30,409	$ 131,768	$ 42,484	$ 162,102
Identifiable capital assets	$1,244,609	$2,750,406	$1,137,920	$2,466,247	$1,124,437	$2,217,086
Other identifiable assets	208,754	1,430,718	209,409	1,609,303	217,119	1,400,205
Identifiable assets	$1,453,363	$4,181,124	$1,347,329	$4,075,550	$1,341,556	$3,617,291
Capital expenditures	$ 159,948	$ 347,107	$ 100,012	$ 456,898	$ 74,383	$ 461,001
Total long-term debt—including current maturities	$ 651,422	$2,610,079	$ 575,125	$2,639,698	$ 603,665	$2,320,603

13. 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 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.

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.

Plan Description and Contribution Information—Membership of the plan consisted of the following at January 1, 2006, and 2005, the date of the latest actuarial valuation:

	2006	2005
Retirees and beneficiaries receiving benefits	136	130
Terminated plan members entitled to but not yet receiving benefits	85	93
Total	221	223

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.

The financial statement of the Plan is presented in the Port's annual financial report. A copy of the report may be obtained at:

Port of Seattle
Pier 69,
P.O. Box 1209 P 69
Seattle, WA 98111
Internet Address: www.portseattle.org

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, 2006, 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 6.5%, 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	$ 1,437
Interest on net pension asset	193
Adjustment to annual required contribution	(270)
Annual pension cost	1,360
Contributions made	(1,500)
Increase in net pension asset	140
Net pension asset beginning of year	7
Net pension asset end of year	$ 147

SCHEDULE OF FUNDING PROGRESS

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio
12/31/2006	$13,014	$26,559 *	$13,545	49.00 %
12/31/2005	12,335	26,991	14,656	45.70
12/31/2004	12,662	27,530	14,868	45.99
12/31/2003**	11,984	25,975	13,990	46.14
12/31/2002**	11,298	25,510	14,212	44.29
12/31/2001**	13,179	25,971	12,791	50.75

This plan covers inactive participants. There are no related payroll costs.
*Estimated liabilities as of 12/31/06 are based on January 1, 2006, data.
**Data provided to actuary was unaudited.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollar amounts in thousands)

Years Ended December 31	Annual Pension Cost	Employer Contributions	Percentage Contributed	Net Pension Obligation/ (Asset)
2006	$ 1,360	$ 1,500	110.29 %	$ (147)
2005	1,390	1,000	71.94	(7)
2004	1,603	2,000	124.77	(397)
2003***	1,925	177	9.19	2,972
2002***	2,010	813	40.45	1,224
2001***	1,487	1,349	90.72	27

***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.

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STATISTICAL SECTION

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PORT OF SEATTLE

STATISTICAL SECTION NARRATIVE AND SCHEDULES

This section of the Port's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements and note disclosures present about the Port's overall financial health. Unless otherwise noted, the information in this section is derived from the annual financial reports for the relevant year.

CONTENTS

FINANCIAL TRENDS

These schedules contain trend information to help the reader understand how the Port's financial performance and well-being has changed over time. The schedules are presented from enterprise fund perspective only and include fiscal year ending 2001 and forward, coinciding with the implementation of GASB 34 in fiscal year 2002 with 2001 figures restated. Schedules included are:

Schedule 1 – Net Assets by Component, Last Six Fiscal Years

Schedule 2 – Changes in Net Assets, Last Six Fiscal Years

REVENUE CAPACITY

These schedules contain information to help the reader assess the factors affecting the Port's ability to generate its property taxes. Schedules include are:

Schedule 3 – Assessed Value and Estimated Actual Value of Taxable Property and Direct and Overlapping Property Tax Rates Per $1,000 of Assessed Value, Last Ten Fiscal Years

Schedule 4 – Principal Property Taxpayers, Current Year

Schedule 5 – Property Tax Levies and Collections, Last Ten Fiscal Years

DEBT CAPACITY

These schedules present information to help the reader assess the affordability of the Port's current levels of outstanding debt and the Port's ability to issue additional debt in the future. Details regarding the Port's outstanding debt can be found in the notes to the financial statements. Schedules included are:

Schedule 6 – Ratio of Outstanding Debt by Type, Last Ten Fiscal Years

Schedule 7 – Ratio of General Obligation Bonds, Last Ten Fiscal Years

Schedule 8 – Computation of Direct and Overlapping General Obligation Debt, Current Year

Schedule 9 – Legal Debt Margin Information, Last Ten Fiscal Years

Schedule 10 – Revenue Bonds Coverage by Type, Last Ten Fiscal Years

DEMOGRAPHIC INFORMATION

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Port's financial activities take place. Schedules included are:

Schedule 11 – Demographic Statistics, Last Ten Fiscal Years

Schedule 12 – Principal Employers of Seattle, Current Year and Nine Years Ago

OPERATION INFORMATION

These schedules contain information about the Port's operations and resources to help the reader understand how the Port's financial information relates to the services it provides and the activities it performs. Schedules included are:

Schedule 13 – Number of Port Employees by Division, Last Nine Fiscal Years

Schedule 14 – Seattle-Tacoma International Airport Enplaned Passengers Level, Last Ten Fiscal Years

Schedule 15 – Seattle-Tacoma International Airport Aircraft Operations Level, Last Ten Fiscal Years

Schedule 16 – Seattle-Tacoma International Airport Air Cargo Level, Last Ten Fiscal Years

Schedule 17 – Seattle Harbor Containers Volumes, Last Ten Fiscal Years

Schedule 18 – Seattle Harbor Docks Volumes, Last Ten Fiscal Years

Schedule 19 – Seattle Harbor Cruise Traffic, Last Ten Fiscal Years

Schedule 20 – Capital Assets Information, Current Year

Schedule 1
NET ASSETS BY COMPONENT
Last Six Fiscal Years
(accrual basis of accounting)
(in thousands)

Fiscal Year	2006	2005	2004	2003	2002	2001
Invested in capital assets—net of related debt	$ 2,046,683	$ 1,960,209	$ 1,829,975	$ 1,616,676	$ 1,484,172	$ 1,400,661
Restricted	53,646	21,580	21,910	29,376	75,318	92,996
Unrestricted	184,227	101,747	72,025	76,744	59,053	54,979
Total net assets	$ 2,284,556	$ 2,083,536	$ 1,923,910	$ 1,722,796	$ 1,618,543	$ 1,548,636

Schedule 2
CHANGES IN NET ASSETS
Last Six Fiscal Years
(accrual basis of accounting)
(in thousands)

Fiscal Year	2006	2005	2004	2003	2002	2001
OPERATING REVENUES:						
Services	$ 161,200	$ 158,462	$ 140,189	$ 168,650	$ 170,853	$ 180,456
Property rentals	273,529	247,817	211,848	145,947	131,157	140,361
Fuel hydrant facility revenues	8,077	3,491	689	435		
Security grant and contract revenues	5,643	6,755	24,476	6,721	5,350	
Total revenue	448,449	416,525	377,202	321,753	307,360	320,817
OPERATING EXPENSES BEFORE DEPRECIATION:						
Operations and maintenance	173,198	166,920	172,983	164,931	165,903	175,693
Earthquake repair expenses—net of recoveries	(179)	2,130	(195)	(2,590)	882	6,861
Law enforcement [(a)]	18,017	17,920	17,392	17,076		
Administration	33,790	31,486	30,890	25,579	45,547	38,401
Environmental—net	(1,262)	7,739	2,200	4,071	8,607	(1,033)
Total operating expenses before depreciation	223,564	226,195	223,270	209,067	220,939	219,922
NET OPERATING INCOME BEFORE DEPRECIATION	224,885	190,330	153,932	112,686	86,421	100,895
DEPRECIATION	140,190	129,788	110,175	85,076	84,853	81,115
OPERATING INCOME	84,695	60,542	43,757	27,610	1,568	19,780
NONOPERATING INCOME (EXPENSE):						
Ad valorem tax levy revenue	62,691	62,417	59,357	57,793	39,309	35,721
Passenger facility charges revenue and related interest income	59,141	56,506	56,129	54,373	53,675	43,961
Customer facility charges revenue and related interest income	17,188					
Grants and donations	127,524	109,655	118,428	32,790	17,175	27,822
Investment income—net [(b)]	28,895	14,651	6,240	5,469		
Revenue and capital appreciation bond interest expense	(101,491)	(85,502)	(58,401)	(44,136)	(36,815)	(35,698)
Passenger facility charges revenue bond interest expense	(12,258)	(12,604)	(5,923)	(3,869)	(3,121)	(2,323)
General obligation bond interest expense—net	(15,754)	(12,629)	(11,520)	(9,674)	(8,431)	(7,317)
Public expense	(11,027)	(4,404)	(665)	(396)	(5,425)	(3,843)
Other expense—net	(38,584)	(29,006)	(6,288)	(15,707)	11,972	8,508
Total nonoperating income—net	116,325	99,084	157,357	76,643	68,339	66,831
INCREASE IN NET ASSETS	201,020	159,626	201,114	104,253	69,907	86,611
TOTAL NET ASSETS:						
Beginning of year	2,083,536	1,923,910	1,722,796	1,618,543	1,548,636	1,462,025
End of year	$2,284,556	$2,083,536	$1,923,910	$1,722,796	$1,618,543	$1,548,636

(a) Law enforcement operating expense for the years ending 2002 and 2001 was included in the administration operating expense.

(b) Investment income—net for the years ending 2002 and 2001 was included in the other nonoperating expense—net.

Schedule 3
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
DIRECT AND OVERLAPPING PROPERTY TAX RATES PER $1,000 OF ASSESSED VALUE
Last Ten Fiscal Years
(in thousands, except for tax rates)

Fiscal Year	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Port District Assessed Value [(a)]	$270,571,090	$248,911,782	$235,834,254	$224,994,598	$210,996,601	$188,420,104	$166,321,208	$150,422,451	$135,390,192	$126,933,318
Port of Seattle Property Tax Rates	$ 0.23	$ 0.25	$ 0.25	$ 0.26	$ 0.19	$ 0.19	$ 0.22	$ 0.24	$ 0.26	$ 0.28
Overlapping Property Tax Rates:										
Washington State	2.50	2.69	2.76	2.90	2.99	3.15	3.30	3.36	3.51	3.52
King County	1.33	1.38	1.43	1.35	1.45	1.55	1.69	1.77	1.85	2.13
Cities and Towns [(b)]	2.32	2.45	2.47	2.40	2.49	2.69	2.77	2.77	2.90	2.94
School Districts [(b)]	2.97	3.02	3.08	3.13	3.13	3.38	3.69	3.89	3.74	3.93
Other [(c)]	0.95	0.91	0.86	0.86	0.84	0.83	0.90	0.91	0.62	0.83
Total Direct and Overlapping Property Tax Rates [(d)]	$ 10.30	$ 10.70	$ 10.85	$ 10.90	$ 11.09	$ 11.79	$ 12.57	$ 12.94	$ 12.88	$ 13.63

(a) Ratio of total assessed to total estimated value is 100%. Assessed value is shown net of exempt property and it is the same assessed value for King County.

(b) This is an average rate based on the total assessed value of cities and towns, and all school districts. Each city and district has its own rate.

(c) These are average rates based on the total King County rates less cities and towns, school districts, Port, County, and Washington State rates. Each district within this group has its own assessed property value and rates.

(d) This is an average rate based on total tax levies for King County and total assessed property value in King County.

Source: King County Department of Assessments Annual Reports

Schedule 4
PRINCIPAL PROPERTY TAXPAYERS
As of December 31, 2006
(in thousands)

Taxpayer	Taxable Assessed Value	Percentage of Total County Taxable Assessed Value
Boeing	$ 2,468,054	0.9%
Microsoft	1,550,294	0.6%
Puget Sound Energy/Gas/Electric	1,337,494	0.5%
Cingular Wireless (AT&T Wireless)	1,210,203	0.4%
Qwest Corporation Inc.	769,250	0.3%
T-Mobile	597,640	0.2%
EOP	476,540	0.2%
Alaska Airlines	458,904	0.2%
Bank of America	420,617	0.2%
Union Square Limited	391,055	0.1%
Total	$ 9,680,051	3.6%

Source: King County Department of Assessments

Schedule 5
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years
(in thousands)

Fiscal Year	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Total Property Tax Levies [(a)]	$ 62,805,613	$ 62,799,550	$ 59,680,132	$ 58,028,845	$ 39,818,501	$ 35,664,620	$ 35,665,753	$ 35,672,029	$ 35,665,336	$ 35,666,061
Tax Collections:										
Current Tax Collections	$ 61,701,749	$ 61,704,536	$ 58,630,165	$ 56,372,464	$ 38,972,071	$ 34,899,756	$ 34,910,452	$ 34,901,226	$ 34,819,024	$ 34,811,146
Delinquent Tax Collections		841,591	952,318	1,607,576	833,877	751,718	750,632	760,530	842,505	854,298
Total Tax Collections	$ 61,701,749	$ 62,546,127	$ 59,582,483	$ 57,980,040	$ 39,805,948	$ 35,651,474	$ 35,661,084	$ 35,661,756	$ 35,661,529	$ 35,665,444
Outstanding Delinquent Taxes	$ 1,103,864	$ 253,423	$ 97,649	$ 48,805	$ 12,553	$ 13,146	$ 4,669	$ 10,273	$ 3,807	$ 617
Percent of Current Taxes Collected	98.2%	98.3%	98.2%	97.1%	97.9%	97.9%	97.9%	97.8%	97.6%	97.6%
Ratio of Outstanding Delinquent Taxes to Total Tax Levy	1.8%	0.4%	0.2%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

(a) Include cancellations and supplements and generally differ from the totals reported by King County by an immaterial amount.

Source: Port of Seattle, from King County Tax Receivables Summary

Schedule 6

RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

(in thousands, except Total Debt Per Capita)

Fiscal Year	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
General Obligation Bonds	$ 416,645	$ 380,225	$ 397,285	$ 217,285	$ 229,030	$ 240,125	$ 250,685	$ 141,300	$ 148,685	$ 155,715
Revenue Bonds	2,303,065	2,354,405	2,078,760	2,150,875	1,634,497	1,677,795	1,283,780	966,774	760,430	787,120
Commercial Paper	160,575	70,210	47,705	105,050	115,550	75,890	70,415	83,100	80,291	6,605
Notes Payable								650	650	650
Capital Appreciation Bonds							5,827	5,086	4,387	3,741
Passenger Facility Charge Revenue Bonds	227,405	235,635	243,475	250,940	258,050	262,500	262,500	262,500	262,500	
Fuel Hydrant Special Facility Bonds	119,015	121,140	121,140	121,140						
Total Debt	$ 3,226,705	$ 3,161,615	$ 2,888,365	$ 2,845,290	$ 2,237,127	$ 2,256,310	$ 1,873,207	$ 1,459,410	$ 1,256,943	$ 953,831
Ratio of Total Debt to Personal Income [(a)]	3.7%	3.6%	3.3%	3.6%	2.9%	2.9%	2.4%	2.0%	1.9%	1.7%
Total Debt Per Capita [(b)]	$ 1,758	$ 1,749	$ 1,615	$ 1,599	$ 1,261	$ 1,283	$ 1,078	$ 848	$ 739	$ 568

(a) See Schedule 11 for Personal Income of King County data used in this calculation. Ratio of 2005 and 2006 is calculated using 2004 Personal Income figure.

(b) See Schedule 11 for Population of King County data used in this calculation (1997 through 2006 figures are estimated except 2000 census data).

Schedule 7
RATIOS OF GENERAL OBLIGATION BONDS
Last Ten Fiscal Years
(in thousands, except General Obligation Bonds Per Capita)

Fiscal Year	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
General Obligation Bonds	$ 416,645	$ 380,225	$ 397,285	$ 217,285	$ 229,030	$ 240,125	$ 250,685	$ 141,300	$ 148,685	$ 155,715
Percentage of General Obligation Bonds to the Assessed Value of Taxable Property [a]	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%
General Obligation Bonds Per Capita [b]	$ 227	$ 210	$ 222	$ 122	$ 129	$ 137	$ 144	$ 82	$ 87	$ 93

(a) See Schedule 3 for assessed value of taxable property data.

(b) See Schedule 11 for Population of King County data used in this calculation (1997 through 2006 figures are estimated except 2000 census data).

Schedule 8
COMPUTATION OF DIRECT AND OVERLAPPING GENERAL OBLIGATION DEBT

As of December 31, 2006
(in thousands)

Governmental Unit	Outstanding	Estimated Percentage Applicable [(a)]	Estimated Share of Direct and Overlapping Debt
Port of Seattle	$ 416,645	100.0%	$ 416,645
Estimated Overlapping General Obligation Debt:			
King County	862,538	100.0%	862,538
Cities and Towns	1,326,580	99.6%	1,321,935
School Districts	2,424,934	93.9%	2,277,972
Other	386,245	99.2%	383,344
Total Estimated Overlapping Debt			$ 4,845,789
Total Direct and Estimated Overlapping Debt			$ 5,262,434

(a) As general obligation debt was repaid with property taxes, the percentage of overlapping general obligation debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by ratio of assessed valuation of property in overlapping unit subject to taxation in reporting unit to total valuation of property subject to taxation in reporting unit.

Sources: King County Financial Management Section

Schedule 9
LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years
(in thousands)

Legal Debt Limitation Calculation for Fiscal Year 2006 (Statutory Debt Limitation)

Assessed Value of Taxable Property for 2006 [(a)]	$270,571,090
Debt Limit (nonvoted debt, including limited tax general obligation bonds) 0.25% of assessed value of taxable property [(b)]	$ 676,428
Less: Outstanding Limited Tax General Obligation Bonds	(416,645)
Less: Capital leases and other general obligations	
Non-voted General Obligation Debt Margin	$ 259,783
Debt Limit, Total General Obligation Debt 0.75% of assessed value of taxable property [(b)]	$ 2,029,283
Less: Total Limited Tax General Obligation Bonds	(416,645)
Less: Capital leases and other general obligations	
Voted General Obligation Debt Margin	$ 1,612,638

Fiscal Year	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Non-voted General Obligation Bonds Limit	$ 676,428	$ 622,279	$ 589,586	$ 562,486	$ 527,492	$ 471,050	$ 415,803	$ 376,056	$ 338,475	$ 317,333
Less: Total debt applicable to the Non-voted General Obligation Bond Limit	(416,645)	(380,225)	(397,285)	(217,285)	(229,030)	(240,125)	(250,685)	(141,300)	(148,685)	(155,715)
Non-voted General Obligation Debt Margin	$ 259,783	$ 242,054	$ 192,301	$ 345,201	$ 298,462	$ 230,925	$ 165,118	$ 234,756	$ 189,790	$ 161,618
Total debt applicable to the Non-voted General Obligation Bonds Limit as a percentage of the Non-voted General Obligation Bonds Limit	38.4%	38.9%	32.6%	61.4%	56.6%	49.0%	39.7%	62.4%	56.1%	50.9%
Voted General Obligation Bonds Limit	$ 2,029,283	$ 1,866,838	$ 1,768,757	$ 1,687,459	$ 1,582,475	$ 1,413,151	$ 1,247,409	$ 1,128,168	$ 1,015,426	$ 952,000
Less: Total debt applicable to the Voted General Obligation Bond Limit	(416,645)	(380,225)	(397,285)	(217,285)	(229,030)	(240,125)	(250,685)	(141,300)	(148,685)	(155,715)
Voted General Obligation Debt Margin	$ 1,612,638	$ 1,486,613	$ 1,371,472	$ 1,470,174	$ 1,353,445	$ 1,173,026	$ 996,724	$ 986,868	$ 866,741	$ 796,285
Total debt applicable to the Voted General Obligation Bonds Limit as a percentage of the Voted General Obligation Bonds Limit	79.5%	79.6%	77.5%	87.1%	85.5%	83.0%	79.9%	87.5%	85.4%	83.6%

(a) See Schedule 3 for assessed value of taxable property data.

(b) Under Washington law, the Port may incur general obligation indebtedness payable from ad valorem taxes in an amount not exceeding one-fourth of one percent of the value of the taxable property in the Port district without a vote of the electors. With the assent of three-fifths of the electors voting thereon, subject to a validation requirement, the Port may incur additional general obligation indebtedness, provided the total indebtedness of the Port at any time does not exceed three-fourths of one percent of the value of the taxable property in the Port district.

Schedule 10
REVENUE BONDS COVERAGE BY TYPE
Last Ten Fiscal Years
(in thousands, except for revenue coverage ratios)

Fiscal Year [a]	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Gross revenue available for revenue bond debt service [b]	$ 439,819	$ 412,481	$ 375,960	$ 321,318	$ 307,360	$ 320,817	$ 306,166	$ 272,644	$ 243,041	$ 227,441
Operating expenses	223,564	226,195	223,270	209,067	220,939	219,922	193,573	177,647	153,148	139,539
Less Port general purpose tax levy	(23,828)	(24,233)	(20,865)	(32,772)	(15,131)	(11,395)	(15,865)	(20,285)	(20,123)	(19,853)
Adjusted operating expenses	199,736	201,962	202,405	176,295	205,808	208,527	177,708	157,362	133,025	119,686
Nonoperating revenue (net) [c]	24,659	18,776	6,053	10,262	11,622	7,308	4,682	8,109	10,007	8,772
Net revenue available for first lien debt service	$ 264,742	$ 229,295	$ 179,608	$ 155,285	$ 113,174	$ 119,598	$ 133,140	$ 123,391	$ 120,023	$ 116,527
Debt service on first lien bonds	$ 87,876	$ 84,614	$ 75,535	$ 78,577	$ 67,782	$ 68,399	$ 67,271	$ 66,581	$ 58,334	$ 56,143
Coverage on first lien bonds	3.01	2.71	2.38	1.98	1.67	1.75	1.98	1.85	2.06	2.08
Net revenue available for intermediate lien debt service [d]	$ 176,866	$ 144,681	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Debt service on intermediate lien bonds [d]	$ 7,269	$ 2,167	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Coverage on intermediate lien bonds [d]	24.33	66.77	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net revenue available for subordinate lien debt service	$ 169,597	$ 142,514	$ 104,073	$ 76,708	$ 45,392	$ 51,199	$ 65,869	$ 56,810	$ 61,689	$ 60,384
Debt service on subordinate lien bonds	$ 39,067	$ 27,813	$ 23,382	$ 16,748	$ 13,112	$ 11,335	$ 13,660	$ 11,840	$ 8,909	$ 2,290
Coverage on subordinate lien bonds	4.34	5.12	4.45	4.58	3.46	4.52	4.82	4.80	6.92	26.37

(a) During 2003, the Port changed its methodology with respect to the calculation of total revenue available for revenue bond debt service and of net expenses payable from revenue and restated 1999 through 2002 periods presented to reflect the change. The Port has determined that unrealized gains and losses on investments should not be considered in the revenue calculation. Commercial paper fees are added back to the expense calculation.

(b) Gross revenue represents total operating revenue adjusted for the following: Fuel hydrant rental income (applicable only in 2006, 2005, 2004 and 2003) and difference of escalating rental income on straight-line basis versus contracted amount are excluded.

(c) Nonoperating revenue (net) is adjusted for the following: Interest expense on any obligations incurred in connection with and payable from gross revenue, income which is not legally pledged for revenue bond debt services namely passenger facility charges, and customer facility charges, grant and donation revenue, public expense, and non-cash items are excluded.

(d) No intermediate lien bonds were issued prior to 2005.

Schedule 11
DEMOGRAPHIC STATISTICS
Last Ten Fiscal Years
(in thousands)

Fiscal Year	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
King County:										
Population [a]	1,835	1,808	1,788	1,779	1,774	1,758	1,737	1,720	1,702	1,680
Personal Income [b]	N/A	N/A	$ 87,617,622	$ 80,002,571	$ 78,400,551	$ 76,883,017	$ 77,271,598	$ 72,997,198	$ 65,485,103	$ 57,707,202
Per Capita Personal Income [b]	N/A	N/A	$ 49.3	$ 45.3	$ 44.6	$ 43.8	$ 44.4	$ 42.2	$ 38.2	$ 34.3
Unemployment Rate [c]	4.2%	4.8%	5.2%	6.2%	6.2%	5.1%	4.1%	3.8%	4.0%	4.1%
State of Washington:										
Population [a]	6,376	6,256	6,168	6,098	6,042	5,975	5,894	5,831	5,750	5,664
Personal Income [b]	$ 240,709,000	$ 222,643,000	$ 217,503,000	$ 203,889,681	$ 198,371,257	$ 193,498,304	$ 187,853,404	$ 175,491,324	$ 163,761,546	$ 150,118,526
Per Capita Personal Income [b]	$ 37.8	$ 35.4	$ 35.0	$ 33.3	$ 32.7	$ 32.3	$ 31.8	$ 30.0	$ 28.4	$ 26.5
Unemployment Rate [c]	4.9%	5.5%	6.3%	7.4%	7.3%	6.2%	5.0%	4.8%	4.8%	4.9%

(a) State of Washington, Office of Financial Management (1997 through 2006 figures are estimated except 2000 census data)

(b) Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce

(c) Rates were average unemployment rates for the year obtained from Washington State, Employment Security Department, Labor Market and Economic Analysis Branch.

Schedule 12

Principal Employers of Seattle[(a)]

Current Year and Nine Years Ago

Type of Employer	2006 Employees	2006 Rank	2006 Percentage of Total Employment	1997 Employees	1997 Rank	1997 Percentage of Total Employment
Manufacturing—*Durable Goods Manufacturing*	133,100	1	9.2%	178,800	1	13.6%
Government—*Local*	113,700	2	7.9%	101,400	2	7.7%
Professional and Business Services—*Professional, Scientific and Technical Services*	96,500	3	6.7%	80,000	4	6.1%
Leisure and Hospitality—*Food Services and Drinking Places*	91,500	4	6.4%	82,900	3	6.3%
Professional and Business Services—*Administrative and Support and Waste Management and Remediation*	84,900	5	5.9%	75,600	5	5.7%
Wholesale Trade	70,600	6	4.9%	69,400	6	5.3%
Retail Trade—*Unspecified*	66,200	7	4.6%	63,100	7	4.8%
Financial Activities—*Finance and Insurance*	61,200	8	4.2%	53,500	8	4.1%
Government—*State*	60,000	9	4.2%	52,600	9	4.0%
Construction—*Specialty Trade Contractors*	59,900	10	4.2%			
Transportation and Warehousing				48,900	10	3.7%
Total	837,600		58%	806,200		61%

(a) Total nonfarm, seasonally adjusted, as of December of each fiscal year.

Source: Washington State Employment Security Department Labor Market and Economic Analysis

Schedule 13

Number of Port of Seattle Employees by Division [a]

Last Nine Fiscal Years

Fiscal Year	2006	2005	2004	2003	2002	2001	2000	1999	1998
Aviation	790	793	811	821	839	817	726	667	625
Seaport	192	193	198	215	280	444	438	434	411
Economic Development	11	13	12	17	12	13	16	14	15
Other	558	573	581	564	573	565	545	478	431
Total	1,551	1,572	1,602	1,617	1,704	1,839	1,725	1,593	1,482

(a) Number of employees include regular, temporary, full-time, and part-time employees as of the last day of each fiscal year. Information by division for fiscal year 1997 is not available due to migration of human resources database implemented in 1999.

Source: Port of Seattle Human Resources Database

Schedule 14
SEATTLE-TACOMA INTERNATIONAL AIRPORT ENPLANED PASSENGERS LEVEL
Last Ten Fiscal Years
(in thousands)

Fiscal Year	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Domestic										
Deplaned	13,745	13,410	13,215	12,277	12,194	12,339	12,999	12,664	11,900	11,460
Enplaned	13,755	13,408	13,154	12,250	12,247	12,345	12,963	12,606	11,810	11,427
Total Domestic	27,500	26,818	26,369	24,527	24,441	24,684	25,962	25,270	23,710	22,887
International										
Deplaned	1,252	1,247	1,225	1,167	1,183	1,191	1,235	1,239	1,095	928
Enplaned	1,227	1,224	1,211	1,106	1,115	1,161	1,211	1,196	1,058	914
Total International	2,479	2,471	2,436	2,273	2,298	2,352	2,446	2,435	2,153	1,842
Grand Total	29,979	29,289	28,805	26,800	26,739	27,036	28,408	27,705	25,863	24,729

Source: Seattle-Tacoma International Airport Activity Reports

Schedule 15
SEATTLE-TACOMA INTERNATIONAL AIRPORT AIRCRAFT OPERATIONS LEVEL
Last Ten Fiscal Years

Fiscal Year	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Air Carrier	253,507	254,829	250,605	210,603	220,786	227,579	236,355	233,914	227,231	235,447
Air Taxi	82,147	83,928	105,377	140,777	139,821	168,322	203,723	194,352	175,037	143,513
General Aviation	4,296	2,938	2,788	3,336	4,069	4,668	5,448	5,321	5,183	6,180
Military/ Training	108	67	124	54	59	66	151	73	125	158
Grand Total	340,058	341,762	358,894	354,770	364,735	400,635	445,677	433,660	407,576	385,298

Source: Seattle-Tacoma International Airport Activity Reports

Schedule 16

SEATTLE-TACOMA INTERNATIONAL AIRPORT AIR CARGO LEVEL

Last Ten Fiscal Years

(in metric tons)

Fiscal Year	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Domestic - Air Freight	203,752	212,505	205,333	205,838	215,546	218,513	236,527	225,898	221,132	208,828
International - Air Freight	85,359	72,271	79,829	73,664	71,048	75,773	74,854	74,603	73,033	72,319
Air Mail	52,841	53,815	62,355	71,916	88,159	107,249	145,539	143,723	134,162	112,639
Grand Total	341,952	338,591	347,517	351,418	374,753	401,535	456,920	444,224	428,327	393,786

Source: Seattle-Tacoma International Airport Activity Reports

SCHEDULE 17
SEATTLE HARBOR CONTAINERS VOLUMES
Last Ten Fiscal Years
(in twenty-foot equivalent units, "TEUs", a measure of container volume)

Fiscal Year	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
International Containers										
Import Full	799,138	846,311	704,664	542,863	537,504	497,068	594,991	583,822	571,307	462,981
Export Full	438,806	484,997	387,503	348,856	358,521	329,390	378,208	391,284	420,689	498,349
Empty	398,317	414,490	374,084	293,062	277,223	226,331	228,642	220,044	266,108	227,415
Total International Containers	1,636,261	1,745,798	1,466,251	1,184,781	1,173,248	1,052,789	1,201,841	1,195,150	1,258,104	1,188,745
Total Domestic Containers	351,099	342,131	309,607	301,684	265,624	262,320	286,427	294,899	285,622	287,068
Grand Total	1,987,360	2,087,929	1,775,858	1,486,465	1,438,872	1,315,109	1,488,268	1,490,049	1,543,726	1,475,813

Source: Port of Seattle Container and Tonnage Statistics Reporting System

SCHEDULE 18
SEATTLE HARBOR DOCKS VOLUMES

Last Ten Fiscal Years
(in metric tons)

Fiscal Year	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Non-containerized break bulk	131,984	144,280	149,749	117,725	174,780	220,427	449,184	474,465	606,723	702,751
Grain	5,901,821	5,049,107	3,877,991	3,107,732	1,679,821	2,714,874	2,131,623	1,878,344	1,309,595	3,420,462
Petroleum	976,526	874,475	853,756	909,879	1,098,352	1,591,481	1,914,201	1,816,581	1,491,177	2,185,134
Molasses	45,103	36,874	43,541	46,814	53,349	52,917	37,154	29,805	55,885	38,234
Grand Total	7,055,434	6,104,736	4,925,037	4,182,150	3,006,302	4,579,699	4,532,162	4,199,195	3,463,380	6,346,581

Source: Port of Seattle Container and Tonnage Statistics Reporting System

SCHEDULE 19
SEATTLE HARBOR CRUISE TRAFFIC
Last Ten Fiscal Years

Fiscal Year	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
Cruise Vessel Calls [(a)]	196	169	150	99	75	58	36	6	NA	NA
Cruise Passengers	751,074	686,357	563,000	345,000	244,905	170,495	119,002	6,615	8,783	7,152

(a) Seattle participated in the Alaska cruise market since the early 1990s through hosting port of call vessels. Seattle first became a homeport to cruise ships in 2000.

Source: Port of Seattle Records

SCHEDULE 20
CAPITAL ASSETS INFORMATION

As of December 31, 2006

Seattle-Tacoma International Airport

Location:	12 miles south of downtown Seattle		
Area:	2,800 acres		
Airport Code:	SEA		
Runways:	11,900 ft.		
	9,425 ft.		
Terminal:	Airlines	1,220,041	sq. ft.
	Tenants	244,100	sq. ft.
	Port Occupied	257,906	sq. ft.
	Public/common	774,800	sq. ft.
	Mechanical	474,300	sq. ft.
	Total	2,971,147	sq. ft.
	Number of passenger gates	79	
	Number of loading bridges	46	
	Number of concessionaires in terminal	42	
	Number of rental car agencies in terminal	9	
Apron:	Commercial Airlines	3,061,300	sq. ft.
Parking:	Spaces assigned:		
	Short-term	1,106	
	Long-term	7,155	
	Economy	2,400	
	Rental cars	3,276	
	Employees	1,006	
	Total	14,943	
International:	Customs / Immigration Federal Inspection Service Facility		

Source: Port of Seattle Records

Seaport Facilities

Total Property	1,500	acres
Number of Container Terminals	4	
Number of Breakbulk Terminals	3	
Number of Cruise Terminals	2	
Container Terminals		
Size	500	acres
Berths	10	(with 1,200 to 4,450 feet long)
Container Cranes	26	(of which 7 owned by SSA Terminals)
Storage Facilities	177,000	sq. ft.
Maintenance Facilities	112,000	sq. ft.
On-dock Intermodal Yard	4	full trains loading and storage capacity
Refrigerated Capacity	2,560	reefer plugs
Breakbulk Terminals		
Size	260	acres
Berths	9	(with 400 to 2,100 feet long)
Storage Facilities	86	acres
Cruise Terminals		
Size	30	acres
Berths	3	(with 1,600 to 2,000 feet long)