Port of Seattle

State of Washington

Comprehensive Annual Financial Report

for the Year Ended December 31, 2005

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the Year Ended December 31, 2005

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

June 6, 2006

To the Board of Commissioners of the Port of Seattle:

The Comprehensive Annual Financial Report (CAFR) of the Port of Seattle (the "Port") as of and for the year ended December 31, 2005 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 auditors' 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 thousand dollars in the MD&A and 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 auditors' 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 several 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 2005, the State of Washington's economy built on the momentum established in the previous year, and job growth accelerated. The strength in the economy was evident, to varying degrees, across industry segments and geographic breakouts. The State's employment increased by 2.9% over 2005. The State continued to outperform the nation's employment gains over the same period. The largest urban center in Washington continued to be the major contributors to employment growth over the year. The King County region added an estimated 21,800 new jobs, a growth rate of 2.3% in the past year accounted for nearly 25% of the State's employment gain. The three industries with the greatest contribution to growth are professional and business services, construction, and manufacturing, which together added 43,400 jobs over the past year, or about 49.5% of the State's gains.

Our local economy exhibited more economic vitality than did the rest of the nation due to a turnaround in the aerospace industry, a strong growth in the housing sector resulting from low interest rates, an increase in disposable household income from home mortgage refinancing, 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 2005 performance reflects the underlying strengths of our local economy. Air passenger traffic set a new record of 29.3 million passengers in 2005, a 1.7% increase from 2004. The Seattle seaport also experienced another record setting year in cargo and container volumes, which reached 2.1 million TEUs (Twenty-foot equivalent units – a measure of container volume) in 2005. The 17.6% growth in the container operation made Seattle the fastest growing port in North America, by percentage increase, for the second year in a row. Grain volumes were the second highest since the Port's grain terminal was constructed in 1977. Furthermore, there were a record number of cruise sailings with 169 cruise ship calls and 686,000 passengers, a 22% increase from previous year.

Our local economy heads into 2006 with the economic winds at its back. Output is expanding and demand remains firm. Employment is increasing and income is rising. Consumer confidence rebounded toward the end of 2005 and mortgage interest rates retreated, which both bode well for household spending. With core price pressures largely contained, the fundamentals appear to be in place for a solid expansion. There are challenges ahead, but our local economy has proven resilient.

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 2006 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, a new financing strategy and a new airline lease agreement, the airport's CPE is now projected at $14.15 in 2009. This is a marked reduction from the CPE of $25 forecasted in 2004. The 2006 Budget reflects the first year of a new, seven-year airline lease agreement entered in 2006. This new agreement is projected to save the airlines $14 million in 2006. The Seaport Division met its goal established in 2002 of achieving Net Operating Income (NOI) of $34 million for the year ending 2005. The Seaport Division is now targeting NOI of $45 million for the year ending 2008, which appears achievable.

For 2006, the Port is budgeting total operating revenues of $421.3 million. This represents a 4.7% increase over the 2005 budget. Total operating expenses are budgeted at $228.6 million, 6.9% higher than the 2005 budget. NOI is $192.7 million, a 2.1% increase over the 2005 budget. Depreciation Expense is budgeted at $137.9 million, an increase of $35.4 million over 2005, reflecting the completion of major new facilities, including the airport's Central Terminal expansion. Net Operating Income after Depreciation is $54.8 million, decrease of $31.5 million from the 2005 budget as a result of the increase in depreciation. Revenues and expenses are carefully managed to improve financial performance for the mutual benefit of the port and our customers. The total capital budget for 2006 is $619.9 million and the capital improvement program for 2006-2010 is $2.5 billion, which represents critical infrastructure investments that support the Port's business plan goals and objectives.

Major Initiatives

Several key indicators envision another successful year in 2006 and a bright long-term future for the Port. The Third Runway project is ahead of schedule and work will soon start on the transportation improvements in conjunction with light rail coming to the airport by 2009. A new sailing center and marina building are expected to be completed at Shilshole Bay Marina in 2006, and work will begin on new docks at Fishermen's Terminal. The Seaport Division has begun the planning needed to reopen Terminal 30 as a container terminal, which would mean a move of the cruise operation from Terminal 30 to Pier 91. The Economic Development Division will seek zoning changes needed for redevelopment of the North Bay project. The Small Business Initiative continues to make notable progress and the Port is engaging the community through its outreach programs. Furthermore, the International Trade and Business Development programs are focused on increasing two-way trade and promoting regional business interests.

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

Acknowledgements

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,

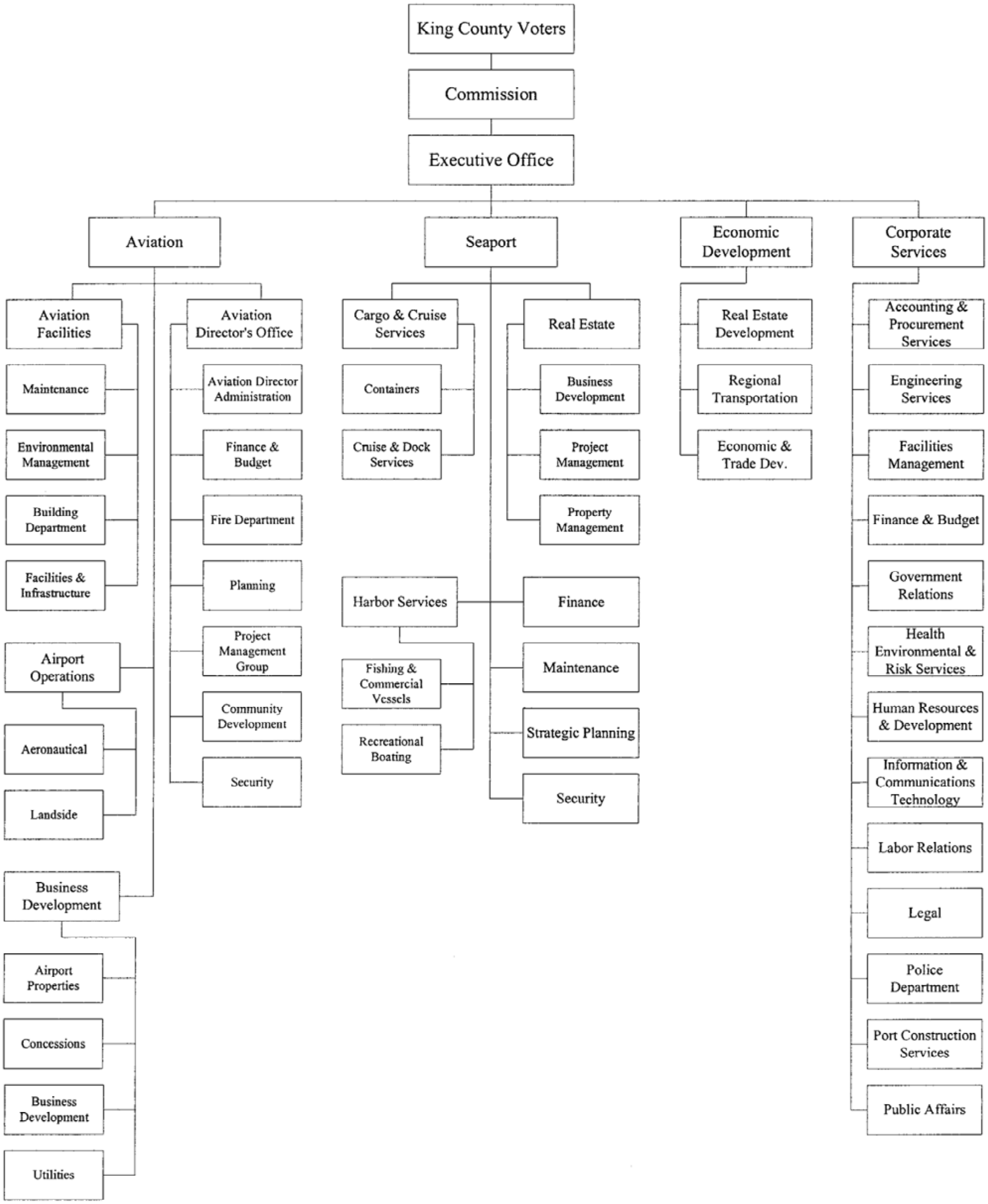
M. R. Dinsmore
Chief Executive Officer

Dan Thomas
Chief Financial Officer

Rudy Caluza
Director, Accounting and Procurement Services

Lisa Lam
Financial Reporting Manager

PORT OF SEATTLE ORGANIZATION CHART



LIST OF ELECTED AND APPOINTED OFFICIALS IN 2006

Elected Board of Commissioners

Name	Office	Term Expires
Patricia Davis	Chair and President	December 31, 2009
Lloyd Hara[1]	Vice Chair	December 31, 2009
Alec Fisken	Secretary	December 31, 2007
John Creighton[2]	Assistant Secretary	December 31, 2009
Bob Edwards	Commissioner	December 31, 2007

Appointed Executive Staff

M. R. Dinsmore	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 Council

Footnotes

1. Commissioner Hara joined the Commission on January 1, 2006, succeeding Commissioner Paige Miller, whose term expired on December 31, 2005

2. Commissioner Creighton joined the Commission on January 1, 2006, succeeding Commissioner Lawrence Molloy, whose term expired on December 31, 2005

FINANCIAL SECTION

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INDEPENDENT AUDITORS' 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 years ended December 31, 2005 and 2004, and for the year ended December 31, 2003 for the Enterprise Fund, and as of and for the year ended December 31, 2005, and as of December 31, 2004 and the period from May 25, 2004 (inception) through December 31, 2004 for the Warehousemen's Pension Trust Fund, which collectively comprise the Port's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Port's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2005 and 2004, and the changes in financial position and cash flows for the Enterprise Fund for the three years in the period ended December 31, 2005, and the changes in net assets for the Warehousemen's Pension Trust Fund for the year ended December 31, 2005, and the period from May 25, 2004 (inception) through December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 8 through 16 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Port's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Deloitte & Touche LLP

June 6, 2006

PORT OF SEATTLE

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2005 AND 2004

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, 2005, 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, 2004 and 2003. 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 and Seaport divisions and the Economic Development Division. 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)	2005	2004	2003
ASSETS:			
Current, long-term, and other assets	$ 934.6	$ 846.1	$ 995.2
Capital assets	4,553.2	4,154.8	3,747.7
Total assets	$ 5,487.8	$ 5,000.9	$ 4,742.9
LIABILITIES:			
Current liabilities	$ 323.1	$ 264.6	$ 319.7
Long-term liabilities	3,081.2	2,812.4	2,700.4
Total liabilities	$ 3,404.3	$ 3,077.0	$ 3,020.1
NET ASSETS:			
Invested in capital assets—net of related debt	$ 1,960.2	$ 1,830.0	$ 1,616.7
Restricted assets	21.6	21.9	29.4
Unrestricted net assets	101.7	72.0	76.7
Total net assets	$ 2,083.5	$ 1,923.9	$ 1,722.8

Assets exceeded liabilities by $2.1 billion, a $159.6 million increase over total net assets as of December 31, 2004 compared to 1.9 billion, a $201.1 million increase over total net assets as of December 31, 2003. For the year ended December 31, 2005 and 2004, 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 2004 to 2005 and from 2003 to 2004, there was an increase of $130.2 million and $213.3 million, respectively, in this category from the continued creation of new assets.

As of December 31, 2005 and 2004, the unrestricted net assets of $101.7 million and $72.0 million, respectively, may be used to satisfy the Port's ongoing obligations, however, amount from aviation operations must be used solely for the Aviation's ongoing obligations. Cash and cash equivalents, and investment balances related to such aviation operations total $136.4 million and $58.0 million for the year ended 2005, and 2004, respectively. The increase in this category from 2004 is largely due to a reduction of capital spending, liquidating debt service reserves by replacing with surety and back funding some previous aviation operations expenditures with bond and PFC receipts.

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)	2005	2004	2003
Operating revenues	$ 416.5	$ 377.2	$ 321.8
Operating expenses	226.2	223.3	209.1
Operating income before depreciation	190.3	153.9	112.7
Depreciation	129.8	110.2	85.1
Operating income	60.5	43.8	27.6
Nonoperating income—net	99.1	157.4	76.6
Increase in net assets	159.6	201.1	104.3
Net assets—beginning of year	1,923.9	1,722.8	1,618.5
Net assets—end of year	$ 2,083.5	$ 1,923.9	$ 1,722.8

Financial Operation Highlights

A summary of gross operating revenues follows:

(In millions)	2005	2004	2003
OPERATING REVENUES:			
Services	$ 158.4	$ 140.2	$ 168.7
Property rentals	247.8	211.8	145.9
Fuel hydrant facility revenues	3.5	0.7	0.5
Security grant and contract revenues	6.8	24.5	6.7
Total	$ 416.5	$ 377.2	$ 321.8

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 resulted 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 and (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 passenger through the cruise terminals.

During 2004, operating revenues within the enterprise fund increased 17.2% from $321.8 million to $377.2 million. Aviation operating revenues increased $34.6 million due to a combination of (1) an increase in fees charged to recover costs associated with new facilities coming into service in 2004 such as Concourse A, (2) a change in the rate setting methodology for aeronautical facilities based on the signatory airline lease and operating agreements ("SLOA") that permits the Port to retain increased net operating income, and (3) increased passenger traffic of 7.5% that drove increases to non-airline revenues such as parking, rental cars, and concessions. Seaport Division operating revenues increased $21.4 million largely due to Seaport security grant revenues from the Operation Safe Commerce program. These operating grant revenues were reimbursements for operating expenses incurred during the year.

A summary of operating expenses before depreciation follows:

(In millions)	2005	2004	2003
OPERATING EXPENSES BEFORE DEPRECIATION:			
Operations and maintenance	$ 166.9	$ 173.0	$ 164.9
Earthquake repair expenses—net	2.1	(0.2)	(2.6)
Law enforcement	17.9	17.4	17.1
Administration	31.6	30.9	25.6
Environmental	7.7	2.2	4.1
Total operating expenses before depreciation	$ 226.2	$ 223.3	$ 209.1

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.

During 2004, operating expenses increased 6.8% from $209.1 million to $223.3 million. Aviation Division operating expenses increased only $2.1 million between years. Large fluctuations in expense categories from 2003 to 2004 include (1) a decline in Operations and Maintenance expense from 2003 due to non-recurring significant project write-offs from changes in divisional capital spending plans in 2003, (2) an increase in Administrative costs to support Aviation information technology initiatives, (3) an increase due to a corporate restructure in Information Technology, and (4) a decrease in recoveries related to FEMA from the February 2001 earthquake. Seaport Division operating expenses increased $12.6 million as a result of a $17 million increase in Seaport security grant expenditures from the Operation Safe Commerce program that were subsequently reimbursed. This was offset by a reduction in the 2004 environmental reserve expense for the Seaport Division of $2.7 million and a $1.9 million decline in warehouse expenses from 2003.

As a result of the above, 2005 and 2004 operating income before depreciation increased $36.4 million and $41.2 million from 2004 and 2003, respectively.

Depreciation expense was $19.6 million and $25.1 million above 2004 and 2003, respectively, primarily in the Aviation division largely due to the opening of the Central Terminal in May of 2005 and the opening of the South Terminal Expansion Terminal in June of 2004. For 2004, depreciation expense included $8.9 million related to assets that were placed in service in prior years.

A summary of nonoperating income—net follows:

(In millions)	2005	2004	2003
NONOPERATING INCOME (EXPENSE):			
Ad valorem tax levy revenue	$ 62.4	$ 59.4	$ 57.8
Passenger facility charges revenue and	56.5	56.1	54.4
Grants and donations	109.7	118.4	32.8
Investment income—net	14.6	6.2	5.5
Revenue and capital appreciation bond interest expense	(85.5)	(58.4)	(44.1)
Passenger facility charges revenue bond interest expense	(12.6)	(5.9)	(3.9)
General obligation bond interest expense—net	(12.6)	(11.5)	(9.7)
Public expense	(4.4)	(0.6)	(0.4)
Other expense—net	(29.0)	(6.3)	(15.7)
Total	$ 99.1	$ 157.4	$ 76.6

During 2005, nonoperating income—net decreased $58.3 million, largely due to a $34.9 million increase in bond interest expense for the year from 2005 revenue bond issue and less capitalized interest resulted from a decrease in average construction expenditures from prior year. Other significant fluctuations included a $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.

During 2004, nonoperating income—net increased about $80.8 million, largely due to an $86 million increase in grant receipts for the year. Other significant fluctuations included a $14 million increase in revenue bond interest expense due to less interest being capitalized in 2004 and a $9 million decline in Other expense—net from reduced losses from the demolition of assets occurring in 2003 of which $3.5 million of loss on disposal relates to assets demolished in prior years that was recognized in 2004.

Increase in net assets for 2005 and 2004 was $159.6 million and $201.1 million, respectively, compared to $201.1 million in 2004 and $104.3 million in 2003. For 2005, though operating income before depreciation increased significantly, it was more than offset by increases in depreciation expense and lower nonoperating income. For 2004, the increase was due to higher operating revenues and increases in nonoperating revenues when netted with expenses.

Budgetary Highlights

The following represents the Port's budget highlights for the year ended December 31, 2005:

(In millions)	Actual	Budget
Operating revenues	$ 416.5	$ 402.5
Operating expenses	226.2	213.8
Operating income before depreciation	190.3	188.7
Depreciation	129.8	102.5
Operating income	60.5	86.2
Nonoperating income—net	99.1	206.2
Net income	$ 159.6	$ 292.4

Operating revenues were favorable to budget by $14.0 million primarily due to $6.9 million in revenues from the Radisson Hotel operations reported at gross but budgeted net of expenses in the Aviation Division and a $7.1 million favorable variance in the Seaport Division. Additional changes from budget in the Aviation division include higher public parking, car rental and properties revenues slightly offset by lower concession revenues due to a one month delay in the opening of the Central Terminal from what was budgeted. The Seaport Division increase from budget was due to above budget grain volumes and rates, higher than budgeted acres leased to container terminal tenants, and increased crane revenues from higher volumes at Terminal 5. These favorable operating revenue variances were partially offset by lower than budgeted reimbursable security grant revenues.

Operating expenses before depreciation were unfavorable to budget by $12.4 million primarily due to $6.2 million in operating expenses related to Radisson Hotel operations reported at gross but budgeted net of revenues in the Aviation Division. Additionally, the division was over budget due to an increase in earthquake expenses from a reduction to the receivable that was originally anticipated from FEMA from the February 2001 earthquake and capital project write-offs largely offset by savings throughout the division. Seaport Division operating expenses were higher than budget primarily due to an increase in the environmental reserve for Terminal 117 partially offset by less Seaport security grant reimbursable expenditures from delays in spending.

As a result of the above, operating income before depreciation was $1.6 million above budget.

Depreciation expense was $27.3 million above budget primarily in the Aviation division.

Nonoperating income—net is $107.1 million below budget. Customer Facility Charge Revenues of $18.0 million were budgeted in the Aviation Division but were not collected by car rentals due to a delay in the start of the program. Grants and Donations decreased $58.5 million from budget due to the anticipation of grant revenues in the budget that were not yet appropriated by grantor agencies in 2005. Interest expense was higher than budgeted due to less interest being capitalized partially offset by increased interest income from a larger portfolio and higher interest earnings than budgeted. Public expense spending was lower than budgeted due to project delays, and demolitions and partial write-offs were $25.2 million over budget.

As a result of the above, net income was $132.8 million below budget.

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 previously administered by two separate trusts, the Warehousemen's Pension Trust and the Local #9 Health and Welfare Trust 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, 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, 2005.

(In millions)	**2005**	**2004**
Total assets	$ 12.3	$ 12.7
Total liabilities		
Total net assets	$ 12.3	$ 12.7
Total additions	$ 1.7	$ 2.5
Total deductions	2.0	1.6
Increase (decrease) in net assets	(0.3)	0.9
Net assets—beginning of period	12.6	11.7
Net assets—end of period	$ 12.3	$ 12.6

The 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 of benefits payment 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, 2005, amounted to $4.6 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 2005 was 9.6%, or $398.4 million.

During 2005, completed projects totaling $389.1 million were closed from construction-in-progress to their respective capital accounts. The major completed projects were (in millions):

Airport:	
Central Terminal Expansion	$ 137
Electric Infrastructure Upgrade	48
Industrial Waste Treatment	26
Baggage Systems	14
MPT Seismic Upgrades	10
Seaport:	
East Waterway	$ 18
T 25 Container Development	15
T-18 Fuel Transfer	11

Capital asset acquisitions are capitalized at cost and depreciated using the straight-line method. During 2005, 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, 2005, the Port had outstanding revenue bonds of $2.4 billion, a $298.2 million increase from 2004. On July 20, 2005, the Port issued $404.6 million in Intermediate Lien Revenue and Refunding bonds (Series 2005A), and $9.4 million in Intermediate Lien Revenue Refunding bonds (Series 2005B). On August 16, 2005, the Port issued $62.9 million of Subordinate Lien Revenue Bonds. During 2005, subordinate lien revenue notes (tax-exempt commercial paper) increased $22.5 million from $47.7 million in 2004 to $70.2 million in 2005.

In July 2005, the Port entered into a delayed delivery bond purchase contract for its Intermediate Lien Revenue Refunding bonds (Series 2005C), which are scheduled for issuance in June 2006. Series 2005C bonds have a principal amount of $40.1 million. The proceeds will fund the partial refunding of Series 1996B Revenue Bonds.

As of December 31, 2005, the Port had outstanding general obligation bonds ("GO" bonds) of $380.2 million, a $17.1 million decrease from 2004 due to scheduled principal payments.

In January 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, 2005, the Port had outstanding passenger facility charge ("PFC") revenue bonds of $235.6 million, a $7.8 million decrease from 2004 due to scheduled principal payments.

As of December 31, 2005, the Port had outstanding Fuel Hydrant Special Facility Revenue bonds of $121.1 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, 2005, the Port had outstanding conduit debt obligations of which $188.6 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. Many of the Port’s bond issues include credit enhancement; the credit ratings for those issues are the ratings of the bond insurer or letter of credit provider.

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

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

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PORT OF SEATTLE

ENTERPRISE FUND

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2005 AND 2004
(In thousands)

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 28,607	$ 76,812
Short-term investments	173,520	95,037
Accounts and contracts receivable, less allowance of $1,788 and $1,220 for doubtful accounts	31,385	33,377
Federal grants-in-aid receivable	35,231	34,342
Earthquake-related receivables	1,687	3,893
Taxes receivable	1,553	1,523
Maintenance supplies	4,203	4,151
Prepayments and other current assets	3,088	3,694
Deferred assets	1,411	4,975
Total current assets	280,685	257,804
RESTRICTED CASH, CASH EQUIVALENTS, AND INVESTMENTS:		
Bond funds:		
Short-term investments	186	38,395
Long-term investments	577,448	463,809
Fuel hydrant assets held in trust:		
Cash and cash equivalents	14,183	16,938
Short-term investments		9,987
Long-term investments	8,637	8,981
Contract retainage—cash and cash equivalents	541	411
Total restricted cash, cash equivalents, and investments	600,995	538,521
CAPITAL ASSETS:		
Land and air rights	1,182,050	1,133,320
Facilities and improvements	3,164,756	2,890,165
Equipment, furniture, and fixtures	306,421	321,229
Total capital assets	4,653,227	4,344,714
Less accumulated depreciation	996,082	952,149
Construction work in progress	896,048	762,278
Total capital assets—net	4,553,193	4,154,843
DEFERRED FINANCE COSTS, net of accumulated amortization of $22,958 and $17,713	51,140	49,714
OTHER LONG-TERM ASSETS	1,780	
TOTAL	$ 5,487,793	$ 5,000,882

See notes to financial statements.

LIABILITIES AND NET ASSETS	2005	2004
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 79,287	$ 67,038
Accrued earthquake expenses	914	1,328
Payroll and taxes payable	29,587	29,362
Bond interest payable	41,636	37,632
Lease deposits and customer advances	28,394	4,905
Current maturities of long-term debt	143,245	124,370
Total current liabilities	323,063	264,635
LONG-TERM LIABILITIES:		
Accrued environmental expenses	7,241	9,179
Accrued long-term expenses	2,375	3,260
Total long-term liabilities	9,616	12,439
LONG-TERM DEBT—Less current maturities:		
Revenue bonds	2,309,635	2,026,995
General obligation bonds	362,315	380,225
Passenger facility charges revenue bonds	227,405	235,635
Fuel hydrant special facility bonds	119,015	121,140
Unamortized bond premiums—net of discounts and amortization	53,208	35,903
Total long-term debt	3,071,578	2,799,898
Total liabilities	3,404,257	3,076,972
COMMITMENTS AND CONTINGENCIES (Notes 10 and 11)		
NET ASSETS:		
Invested in capital assets—net of related debt	1,960,209	1,829,975
Restricted net assets	21,580	21,910
Unrestricted net assets	101,747	72,025
Total net assets	2,083,536	1,923,910
TOTAL	$5,487,793	$5,000,882

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, 2005, 2004 AND 2003
(In thousands)

	2005	2004	2003
OPERATING REVENUES:			
Services	$ 158,462	$ 140,189	$ 168,650
Property rentals	247,817	211,848	145,947
Fuel hydrant facility revenues	3,491	689	435
Security grant and contract revenues	6,755	24,476	6,721
Total revenue	416,525	377,202	321,753
OPERATING EXPENSES BEFORE DEPRECIATION:			
Operations and maintenance	166,920	172,983	164,931
Earthquake repair expenses—net of recoveries	2,130	(195)	(2,590)
Law enforcement	17,920	17,392	17,076
Administration	31,486	30,890	25,579
Environmental	7,739	2,200	4,071
Total operating expenses before depreciation	226,195	223,270	209,067
NET OPERATING INCOME BEFORE DEPRECIATION	190,330	153,932	112,686
DEPRECIATION	129,788	110,175	85,076
OPERATING INCOME	60,542	43,757	27,610
NONOPERATING INCOME (EXPENSE):			
Ad valorem tax levy revenue	62,417	59,357	57,793
Passenger facility charges revenue and related interest income	56,506	56,129	54,373
Grants and donations	109,655	118,428	32,790
Investment income—net	14,651	6,240	5,469
Revenue and capital appreciation bond interest expense	(85,502)	(58,401)	(44,136)
Passenger facility charges revenue bond interest expense	(12,604)	(5,923)	(3,869)
General obligation bond interest expense—net	(12,629)	(11,520)	(9,674)
Public expense	(4,404)	(665)	(396)
Other expense—net	(29,006)	(6,288)	(15,707)
Total nonoperating income—net	99,084	157,357	76,643
INCREASE IN NET ASSETS	159,626	201,114	104,253
TOTAL NET ASSETS:			
Beginning of year	1,923,910	1,722,796	1,618,543
End of year	$ 2,083,536	$ 1,923,910	$ 1,722,796

See notes to financial statements.

PORT OF SEATTLE

ENTERPRISE FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(In thousands)

	2005	2004	2003
OPERATING ACTIVITIES:			
Cash received from customers	$ 419,945	$ 354,592	$ 310,035
Cash paid to suppliers for goods and services	(59,064)	(95,101)	(72,430)
Cash paid to employees for salaries, wages, and benefits	(141,191)	(141,120)	(133,012)
Security grant revenues	6,755	24,476	6,721
Net cash provided by operating activities	226,445	142,847	111,314
CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuance and sale of revenue and Fuel Hydrant bond	490,475	21,305	665,145
Proceeds from issuance of commercial paper	74,175	33,685	128,820
Proceeds from issuance and sale of general obligation bonds		315,037	
Proceeds used for refunding of revenue bonds	(164,350)	(160,090)	(51,680)
Acquisition and construction of capital assets	(556,910)	(535,429)	(525,942)
Principal payments on revenue bonds, PFC, GO bonds, and commercial paper	(113,490)	(154,040)	(142,756)
Interest payments on revenue and fuel hydrant bonds, PFC, GO bonds, and commercial paper	(105,717)	(73,720)	(49,443)
Interest received on invested bond proceeds		63	203
Proceeds from sale of capital assets	59	14,918	1,113
Public expense disbursements	(4,404)	(667)	(396)
Ad valorem tax levy receipts	62,387	59,471	57,383
Receipts from federal grants-in-aid	108,766	98,592	23,292
Passenger facility charges receipts	54,990	54,860	52,510
Other	2,694	(3,568)	(1,974)
Net cash (used in) provided by capital and related financing activities	(151,325)	(329,583)	156,275
INVESTING ACTIVITIES:			
Purchases of investment securities	(640,197)	(848,570)	(864,825)
Proceeds from sales and maturities of investments	488,503	1,028,511	596,602
Interest received on investments	25,744	14,494	15,611
Net cash (used in) provided by investing activities	(125,950)	194,435	(252,612)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(50,830)	7,699	14,977
CASH AND CASH EQUIVALENTS:			
Beginning of year	94,161	86,462	71,485
End of year	$ 43,331	$ 94,161	$ 86,462

See notes to financial statements.

(Continued)

PORT OF SEATTLE

ENTERPRISE FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(In thousands)

	2005	2004	2003
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	$ 60,542	$ 43,757	$ 27,610
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	129,788	110,175	85,076
Decrease (increase) in assets:			
Accounts and contracts receivable	1,310	2,413	(4,368)
Earthquake-related receivables	2,205	(250)	5,080
Maintenance supplies, prepaid items, and other	1,903	(4,818)	1,176
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	10,403	905	4,073
Accrued earthquake expenses	(414)	(1,850)	(8,335)
Payroll and taxes payable	(356)	(9,017)	804
Accrued environmental expenses	(1,938)	(98)	(882)
Lease deposits and customer advances	23,002	1,630	1,080
Net cash provided by operating activities	$ 226,445	$ 142,847	$ 111,314

See notes to financial statements. (Concluded)

PORT OF SEATTLE

WAREHOUSEMEN'S PENSION TRUST FUND

STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2005 AND 2004
(In thousands)

	2005	2004
ASSETS:		
Cash and cash equivalents	$ 130	$ 174
Pension contribution receivable		2,000
Investments—fair value:		
Common stock	6,656	5,671
U.S. government securities		1,990
Corporate bonds	5,415	2,088
Mutual funds		740
Other assets	137	
Total assets	12,338	12,663
LIABILITIES—Accounts payable	(3)	(1)
NET ASSETS—Held in trust for pension benefits and other purposes	$ 12,335	$ 12,662

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

See notes to financial statements.

PORT OF SEATTLE

WAREHOUSEMEN'S PENSION TRUST FUND

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005 AND
THE PERIOD MAY 25, 2004 (DATE OF INCEPTION) THROUGH DECEMBER 31, 2004
(In thousands)

	2005	2004
ADDITIONS:		
Employer contributions	$ 1,000	$ 2,000
Investments earnings:		
Interest	182	142
Dividends	233	62
Gain on investments sold	1,070	253
Net (decrease) increase in fair value of investments	(680)	131
Less investment expense	(76)	(44)
Net investment earnings	729	544
Total additions	1,729	2,544
DEDUCTIONS:		
Benefits	1,932	1,509
Administrative expenses	40	27
Professional fees	84	37
Total deductions	2,056	1,573
CHANGE IN NET ASSETS	(327)	971
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of period	12,662	11,691
End of period	$ 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 ("Airport") serves the predominant air travel needs of a five-county area. The Airport has 16 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 83 cities, including 16 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 oversees Port real estate development, economic development, and regional transportation issues.

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 previously administered by two separate trusts—the Warehousemen's Pension Trust and the Local #9 Health and Welfare Trust 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.

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 finances industrial development for acquiring, constructing, and renovating transshipment and manufacturing facilities with the corporate boundaries of the Port.

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 commercial insurance to cover these risks of loss. The commercial insurances coverage is on a guaranteed cost basis covering related expenses of the Port. Claims on this coverage have not exceeded commercial premiums.

Airline Rates and Charges—Under the terms of the signatory airline lease and operating agreements ("SLOA") expired on December 31, 2005, the Port set airline rates and charges using a hybrid-compensatory methodology. Under SLOA, rates for the landing fee and terminal rents were set to recover the operating and capital costs for the airfield and the terminal cost centers, respectively. The signatory airlines received revenue sharing of $23,558,000 in 2005 and $17,716,000 in 2004 derived from nonaeronautical net revenues in accordance with the agreement. The SLOA was modified and is effective Jan 1, 2006. While most provisions remain the same, key changes include the following: cost recovery formulas were modified to permit the Port to charge the airlines 100 percent of annual debt service allocated to the airlines (unless the Port determines in its sole discretion that a charge above 100 percent and up to 125 percent 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), revenue sharing was eliminated, and the term was extended to Dec 31, 2012.

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, and for environmental expenses. The Port includes ad valorem tax revenues and interest on general obligation bonds in the statements of revenues, expenses, and changes in net assets.

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 construction of Airport and Seaport facilities and other capital activities along with operating grants to perform enhancements in 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.

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 $1,000 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 is 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 2005 and the 2004 Refunding is detailed below as of December 31 (in thousands):

	2005	2004
2005 Refunding		
Revenue Bonds:		
Series 1996A	$ 31,820	$ -
Series 1997A	109,550	
Total	$ 141,370	$ -
2004 Refunding		
Revenue Bonds:	$ 2,005	$ 2,004
Series 1996B	2,810	2,980
Series 1998A	13,845	14,025
Total	$ 16,655	$ 17,005

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."

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 March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk. The requirements of this statement are effective for the Port's financial statements for periods beginning after June 15, 2004. The Port has adopted this new pronouncement in the current year. The required disclosures are presented in Note 2 in the accompanying notes to the financial statements.

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 Port adopted an early implementation of this statement and presented the required disclosure 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. The Port has not completed its assessment of the financial statement impact from the adoption of this standard.

In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, which clarifies "enabling legislation" be reported as restricted net assets under GASB Statement No. 34. This statement specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. This statement is effective for periods beginning after June 15, 2005. The Port has not completed its assessment of the financial statement impact from the adoption of this standard.

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. 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.

In December 2004, the FASB issued Statement No. 153, *Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 29.* This statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. 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.

In May 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3*. This statement replaces APB Opinion No. 20, *Accounting Changes*, and Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting and reporting of a change in accounting principle. This statement requires changes in accounting principle to be retrospectively applied to the prior periods presented in the financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This statement applies to all voluntary changes in accounting principles and also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This statement also carries forward, without substantive change, the provisions for the correction of an error from APB Opinion No. 20. Statement No. 154 is effective for accounting changes and corrections of errors made after December 31, 2005. 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.

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143*, which requires the recognition of a liability for the fair value of a legally-required conditional asset retirement obligation when incurred, if the liability's fair value can be reasonably estimated. This interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. This interpretation is effective no later than the end of fiscal years ending after December 15, 2005 (December 31, 2005 for calendar-year enterprises). The adoption of this interpretation in fiscal year 2006 is not expected to have a significant impact on the Port's statements of net assets and statements of revenue, expenses, and changes in net assets.

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, certificate 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. Currently, these guidelines require the Issuer have a rating of "AAA" for paper purchased past 180 days.

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, 2005 and 2004 (in thousands). These tables do not address investments of debt proceeds held by bond trustees. As of December 31, 2005 and 2004, the Port’s investment pool had 3.7% and 2.5% 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.

		Maturities (in Years)			Percentage
Investment Type	Fair Value	Less Than 1	1-3	More Than 3	of Total Portfolio
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		3.9 %
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 %	
2004					
Repurchase Agreements *	$ 16,763	$ 16,763	$ -	$ -	2.5 %
Commercial Paper	25,592	25,592			3.8 %
Federal Agencies Securities:					
Federal Farm Credit Banks	28,569			28,569	4.2 %
Federal Home Loan Bank	179,738		5,006	174,732	26.7 %
Federal Home Loan Mortgage Corporation	100,043			100,043	14.8 %
Federal National Mortgage Association	105,393			105,393	15.6 %
United States Treasury Notes	125,404	75,339	50,065		18.6 %
United States Treasury Bills	92,962	92,962			13.8 %
Total cash, cash equivalents, and investments	$ 674,463	$ 210,656	$ 55,071	$ 408,737	99.9 %
Percentage of Total Portfolio	100.0 %	31.2 %	8.2 %	60.6 %	

* 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, 2005 and 2004 (in thousands). As of December 31, 2005 and 2004, 37.8% and 58.5%, 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	Percentage Portfolio
2005					
Wells Fargo Government Institutional	$ 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 %	

		Maturities (in Years)			Percentage
Investment Type	Fair Value	Less Than 1	1-3	More Than 3	Percentage Portfolio
2004					
Wells Fargo Government Institutional	$ 14,910	$ 14,910	$ -	$ -	41.5 %
Federal Agencies Securities:					
Student Loan M.A.	2,028	2,028			5.7 %
Federal Home Loan Mortgage Corporation	9,987	9,987			27.8 %
Federal National Mortgage Association	8,981			8,981	25.0 %
Total	$ 35,906	$ 26,925	$ -	$ 8,981	100.0 %
Percentage of Total Portfolio	100.0 %	75.0 %	0.0 %	25.0 %	

Interest Rate Risk – Investments—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, 2005 and 2004, the effective duration of the Port's Investment Pool portfolio was approximately one and one-half years and two 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, 2005, and 2004, the effective duration of the Fuel Hydrant Investment Pool was ten months and six months, respectively.

Custodial Credit Risk – Investment—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, 2005 and 2004, the bank balance of $14,183,000 and $14,910,000, 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 $28,509,000, with anticipated insurance/FEMA/State/Federal Aviation Administration reimbursements of about $20,654,000. Accrued earthquake expenses which remain as yet to be expended for repairs were $914,000 and $1,328,000 at December 31, 2005 and 2004, respectively. During 2005, the Port reduced its estimate of reimbursements originally anticipated from FEMA by $2,095,000; as such, the remaining earthquake related-receivable balance at December 31, 2005 is $1,687,000.

4. CAPITAL ASSETS

Capital assets consist of the following at December 31, 2005 and 2004 (in thousands):

	Beginning of Year	Additions	Retirements	End of Year
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	(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
2004				
Capital assets, not being depreciated:				
Land and air rights	$ 1,096,765	$ 42,388	$ (5,833)	$ 1,133,320
Art collections and others	2,179	2,888		5,067
Total capital assets not being depreciated	1,098,944	45,276	(5,833)	1,138,387
Capital assets being depreciated:				
Facilities and improvements	2,167,793	762,290	(40,147)	2,889,936
Equipment, furniture, and fixtures	250,695	71,634	(5,938)	316,391
Total capital assets being depreciated	2,418,488	833,924	(46,085)	3,206,327
Total capital assets	3,517,432	879,200	(51,918)	4,344,714
Less accumulated depreciation	(875,870)	(110,175)	33,896	(952,149)
Construction work in progress	1,106,094	849,153	(1,192,969)	762,278
Total capital assets—net	$ 3,747,656	$ 1,618,178	$ (1,210,991)	$ 4,154,843

For the year ended December 31, 2005 and 2004, $28,765,000 and $3,149,000 was recorded in other expense—net, respectively, related to demolition costs, impairments, and asset sales. For the Aviation Division, $19,871,000 and $7,335,000 relate to losses from demolition in 2005 and 2004, respectively. For the Seaport Division, $8,993,000 relates to losses from demolition of assets, including an impairment loss of $571,000 on Pier 115 due to changes in regulation and use in 2005 and $4,398,000 gain related to the sale of the Terminal 106 warehouse asset in 2004.

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	
2006	$ 103,390
2007	83,049
2008	84,004
2009	75,639
2010	45,817
Thereafter	1,233,860
Total	$ 1,625,759

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: $8,201,000 for 2006, $8,199,000 for 2007, $8,198,000 for 2008, $8,200,000 for 2009, $8,198,000 for 2010, and $183,788,000 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, 2005, consists of the following (in thousands):

Bond Type (by Bond Issue)	Rates (%)	Maturity Dates	Beginning Balance	Principal Payments and Refunding	Issuance	Ending Balance
General obligation bonds:						
2000 GO bond	4.9–6.0	2005–2025	$ 107,235	$ 2,800	$ -	$ 104,435
2004 GO bond	4.5–5.25	2005–2023	290,050	14,260		275,790
Total			397,285	17,060		380,225
Revenue bonds:						
First lien:						
Series 1992 A	6.4	2005	395	395		
Series 1994 A	4.7–4.8	2006–2007	17,495	13,970		3,525
Series 1994 C	4.8	2006	17,845	14,135		3,710
Series 1996 A	5.5	2005	31,820	31,820		
Series 1996 B	5.2–6.0	2006–2017	53,315	3,055		50,260
Series 1997 A	6.0	2006–2007	120,375	111,445		8,930
Series 1997 B	5.25	2005	2,230	2,230		
Series 1998 A	4.5–5.375	2006–2017	33,075	435		32,640
Series 2000 A	5.5–5.625	2024–2030	130,690			130,690
Series 2000 B	5.5–6.0	2006–2024	216,015	5,890		210,125
Series 2000 C	4.7	2005	2,395	2,395		
Series 2000 D	5.5–6.0	2006–2011	14,430	1,295		13,135
Series 2001 A	5.0	2024–2031	176,105			176,105
Series 2001 B	5.1–5.625	2006–2024	251,380			251,380
Series 2001 C	5.5–5.625	2012–2014	12,205			12,205
Series 2001 D	5.75	2006–2017	65,075	3,710		61,365
Series 2003 A	5.0–5.25	2006–2033	190,470			190,470
Series 2003 B	4.25–5.5	2007–2029	164,900			164,900
Series 2004	3.5–5.75	2006–2017	24,710	1,330		23,380
Total			1,524,925	192,105		1,332,820
Intermediate lien:						
Series 2005 A	5.0 - 5.25	2008-2035		1,500	404,595	403,095
Series 2005 B	5.0	2007-2009			9,395	9,395
Total				1,500	413,990	412,490

(continued)

Bond Type (by Bond Issue)	Rates (%)	Maturity Dates	Beginning Balance	Principal Payments and Refunding	Issuance	Ending Balance
Subordinate lien:						
Series 1997	3.63 *	2022	$ 108,830	$ -	$ -	$ 108,830
Series 1998	4.6–5.375	2006–2017	20,605	1,180		19,425
Series 1999 A	4.75–5.5	2016–2024	121,840			121,840
Series 1999 B	5.25–5.5	2006–2016	102,560	6,485		96,075
Series 2003 C	3.07-3.27 *	2033	200,000			200,000
Series 2005	3.45*	2035			62,925	62,925
Total			553,835	7,665	62,925	609,095
Commercial paper	1.674–1.921	2006	47,705		22,505	70,210
Revenue bond totals			2,126,465	201,270	499,420	2,424,615
Passenger facility charge rev. bonds:						
Series 1998 A	5.0–5.5	2016–2023	118,490			118,490
Series 1998 B	5.0–5.375	2005–2016	124,985	7,840		117,145
Total			243,475	7,840		235,635
Fuel hydrant special facility bonds	3.0–5.5	2006–2033	121,140			121,140
Bond total			2,888,365	226,170	499,420	3,161,615
Unamortized bond premiums—net of discounts and amortization			35,903		17,305	53,208
Total debt			2,924,268	$ 226,170	$ 516,725	3,214,823
Less current maturities of long-term debt			124,370			143,245
Long-term debt			$ 2,799,898			$ 3,071,578

* Variable interest rates as of December 31, 2005

(concluded)

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.

In July 2005, the Port entered into a delayed delivery bond purchase contract for its Intermediate Lien Revenue Refunding Bonds (Series 2005C), which are scheduled for issuance in June 2006. Series 2005C bonds have a principal amount of $40,120,000. The proceeds will fund the partial refunding of Series 1996B Revenue Bonds.

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. 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 February 2004, the Port issued $32,510,000 of Series A and $134,970,000 of Series B General Obligation Bonds to pay, or to reimburse the Port for the payment of, a portion of the costs of its ongoing capital improvement program along with $131,330,000 of Series C Refunding Bonds used to refund the long-term portions of the General Obligation Bonds Series 1994 and Revenue Bonds, Series 1994B. The economic gain resulting from this transaction was $11,480,000. 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 $11,742,000. Interest on the Bonds is payable on May 1 and November 1 of each year, commencing November 1, 2004. The Series A and B Bonds are subject to optional redemption while the Series C Bonds are not subject to optional redemption prior to maturity.

In June 2004, the Port issued $24,710,000 in Series 2004 Refunding Revenue Bond to partially refund certain outstanding Port Revenue Bonds 1992A, 1994A, 1996B, and 1998A and to pay the costs of issuing the Series 2004 Bonds, including the cost of purchasing a surety policy to satisfy the debt service reserve fund requirements for the Series 2004 Bond. The economic loss resulting from this transaction was $1,466,000. The difference between cash flows required to service the outstanding bonds and the cash flows required to service the new debt was a loss of $2,299,000. Interest is payable on June 1 and December 1 of each year, commencing December 1, 2004. The Series 2004 Bonds are not subject to optional redemption prior to their scheduled maturities.

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, 2005 and 2004, there was $22,820,000 and $35,906,000, respectively, of Fuel Hydrant Special Facility Revenue bond proceeds that remain unspent, of which $14,183,000 and $26,925,000, respectively, is comprised of short-term restricted cash and investments, while $8,637,000 and $8,981,000, respectively, is comprised of long-term restricted investments for the year ending December 31, 2005 and 2004.

At December 31, 2005 and 2004, construction work-in-progress includes $85,053,000 and $59,749,000, respectively, relating to the construction of the fuel hydrant facility. Facilities improvements include $16,482,000 for both periods resulted from the purchase of a fuel farm system in 2004.

Fuel hydrant bonds in the amount of $119,015,000 and $121,140,000, respectively, are included in long-term debt on the statements of net assets as of December 31, 2005 and 2004.

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 $70,210,000 and $47,705,000 at December 31, 2005 and 2004, 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, 2005, the Port has estimated that arbitrage rebates of $2,375,000 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, 2005.

Interest expense costs capitalized were $37,527,000 and $62,927,000, and interest income capitalized was $868,000 and $7,495,000, for 2005 and 2004, respectively.

Aggregate annual payments on revenue and general obligation bonds and commercial paper outstanding at December 31, 2005 are as follows (in thousands):

	Principal	Interest	Total
2006	$ 143,245	$ 154,909	$ 298,154
2007	78,430	150,897	229,327
2008	82,660	146,415	229,075
2009	89,890	141,732	231,622
2010	96,995	136,556	233,551
2011–2015	600,600	590,825	1,191,425
2016–2020	625,195	422,741	1,047,936
2021–2025	712,080	251,093	963,173
2026–2030	484,595	120,594	605,189
2031–2035	247,925	22,700	270,625
	$3,161,615	$2,138,462	$5,300,077

The fair value of long-term debt was $3,311,950,000 and $3,057,258,000 as of December 31, 2005 and 2004, respectively. This fair value is estimated using quoted market prices.

7. CONDUIT DEBT

The Port has the following conduit debt obligations totaling $269,630,000 and $272,830,000 as of December 31, 2005 and 2004, 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 (Chase Manhattan Trust Company, National Association). 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

Terminal 18 properties) are pledged as collateral for the debt. At December 31, 2005 and 2004, special facility revenues bonds outstanding are $188,630,000, after defeasance. The first scheduled principal payment is in 2008. In 2003, total facility completion triggered debt service payments 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 was $128,890,000.

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, 2005 and 2004, industrial revenue bonds of $81,000,000 and $84,200,000, respectively, were outstanding.

8. LONG-TERM LIABILITIES

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

2005	**Beginning Balance**	**Additions**	**Reductions**	**Ending Balance**	**Current Portion**	**Long-Term Portion**
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						$ 9,616
2004						
Accrued environmental expenses	$ 17,363	$ 7,185	$ (3,286)	$ 21,262	$ 12,083	$ 9,179
Accrued arbitrage rebate liability	1,860	1,574		3,434	174	3,260
Total long-term liabilities						$ 12,439

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 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 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 2.25%), with PERS Plan III, the employee chooses how much to contribute from one to 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, 2005, was $61,873,000.

The Port's contribution rates during 2005 expressed as a percentage of covered payroll for employer ranged from 1.16% to 2.25% 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 1.18% to 2.25% 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
2005	$ 826,240	$ 972,701	$ 77,071
2004	384,316	713,508	45,545
2003	593,922	710,868	28,057

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 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, 2005, was $14,853,000.

The Port's required contribution rates during 2005 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 3.06% to 4.20% for employer and 5.09% to 6.99% for employees. For LEOFF Plan II (Police), the range of rates was 5.09% to 6.99% for employer and 5.09% to 6.99% for employees. The employer rates do not include the employer administrative expense fees currently set at 0.19% for LEOFF Plan I and LEOFF Plan II (Firefighters) and 0.19% 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)
2005	$ 795	$ 193,645	$ 578,911
2004	860	153,328	457,652
2003	916	141,407	403,575

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, 2005, the Port's environmental reserves are anticipated to be spent over the following time frame in the following amounts (in thousands):

2006	$ 12,235
2007	4,191
2008	1,566
2009	421
2010	137
Thereafter	926
Total	$ 19,476

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, 2005, and 2004, the Port has authorized or made commitments for acquisition and construction as follows (in thousands):

	2005	2004
Funds committed:		
Seaport terminals	$ 159,386	$ 142,816
Airport facilities	612,810	790,072
Corporate	3,775	3,153
Economic and trade development		1,800
Funds authorized but not yet committed:		
Seaport terminals	47,725	46,005
Airport facilities	97,177	172,889
Corporate	343	
Economic and trade development	48	
Total	$ 921,264	$ 1,156,735

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):

	2005	2004	2003
Seaport division:			
Property rentals	$ 61,085	$ 51,119	$ 49,699
Equipment rentals	11,245	9,922	7,433
Distribution and storage	8	16	19
Security grants	5,462	23,199	4,501
Other	26,454	24,814	26,079
Total Seaport division revenues	$ 104,254	$ 109,070	$ 87,731
Aviation division:			
Property rentals	$ 189,915	$ 161,170	$ 96,471
Landing fees	47,107	45,569	83,159
Parking	47,359	42,584	40,217
Security grants	1,162	1,196	1,575
Other	26,272	17,279	11,728
Total Aviation division revenues	$ 311,814	$ 267,798	$ 233,150

One customer represents 19.3%, 18.7%, and 17.9% of total Port's revenue in 2005, 2004, and 2003, respectively.

For the Seaport, the revenues from its major customers accounted for 36.5%, 29.6%, and 39.2% of total operating revenues in 2005, 2004, and 2003, respectively. For the Airport, the revenues from its major customers accounted for 36.8%, 38.1%, and 34.8% of total operating revenues in 2005, 2004, and 2003, 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):

	2005	2004	2003
Seaport division:			
Revenues	$ 38,049	$ 32,264	$ 34,412
Number of major customers	2	2	2
Aviation division:			
Revenues	$ 114,841	$ 101,978	$ 81,196
Number of major customers	2	2	2
Total revenues from all major customers	$ 152,890	$ 134,242	$ 115,608
Total number of major customers	4	4	4

Financial information by division for the years ended December 31, 2005, 2004 and 2003, is as follows (in thousands):

	2005		2004		2003	
	Seaport	Airport	Seaport	Airport	Seaport	Airport
Revenue	$ 104,254	$ 311,815	$ 109,070	$ 267,798	$ 87,731	$ 233,150
Operation and maintenance	46,366	120,553	63,454	109,528	48,729	116,202
Earthquake repair expense—net	17	2,113		(195)	227	(2,817)
Law enforcement	3,701	14,218	2,994	14,398	3,200	13,750
Administration	9,612	17,876	9,043	18,102	8,127	13,341
Environmental	7,468	271	2,217	(17)	4,859	(788)
Total operating expenses before depreciation	67,164	155,031	77,708	141,816	65,142	139,688
Net operating income before depreciation	37,090	156,784	31,362	125,982	22,589	93,462
Depreciation	37,002	92,677	35,813	74,269	31,753	53,275
Operating (loss) income	88	64,107	(4,451)	51,713	(9,164)	40,187
Nonoperating (expense) income:						
Ad valorem tax levy revenue	55,650	6,766	59,357		57,793	
Passenger facility charges revenue and related interest income		56,506		56,129		54,373
Grants and donations	3,691	104,980	2,876	115,312	2,841	29,670
Investment income—net	1,803	12,847	619	5,621	1,828	3,641
Revenue and capital appreciation bond interest expense	(7,032)	(78,470)	(6,422)	(51,979)	(8,585)	(35,577)
Passenger facility charges revenue bond interest expense		(12,604)		(5,923)		(3,870)
General obligation bond interest expense—net	(12,629)		(11,520)		(9,673)	
Public assets expense	(1,319)	(3,080)	(665)		(396)	
Other expense—net	(9,843)	(19,284)	2,690	(8,771)	(7,303)	(8,441)
Total nonoperating income—net	30,321	67,661	46,935	110,389	36,505	39,796
Increase in net assets	$ 30,409	$ 131,768	$ 42,484	$ 162,102	$ 27,341	$ 79,983
Identifiable fixed assets	$1,137,920	$2,466,247	$1,124,437	$2,217,086	$1,070,399	$1,525,017
Other identifiable assets	209,409	1,609,303	217,119	1,400,205	159,423	1,874,520
Identifiable assets	$1,347,329	$4,075,550	$1,341,556	$3,617,291	$1,229,822	$3,399,537
Capital expenditures	$ 100,012	$ 456,898	$ 74,383	$ 461,001	$ 115,035	$ 411,768
Total long-term debt—including current maturities	$ 575,125	$2,639,698	$ 603,665	$2,320,603	$ 513,242	$2,348,863

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, 2005, and 2004, the date of the latest actuarial valuation:

	2005	**2004**
Retirees and beneficiaries receiving benefits	130	122
Terminated plan members entitled to but not yet receiving benefits	93	104
Total	223	226

Plan Description—The Plan is a 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.

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, 2005 and changed from prior year, 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. An amortization period of 20 years was used to calculate the annual required contribution based on closed amortization approach. The actuarial assumptions were changed due to the availability of the most updated mortality tables, changes in market conditions on investment, and amortization period specified under Employee Retirement Income Security Act.

SCHEDULE OF FUNDING PROGRESS

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL	Funded Ratio
12/31/2005	$12,335	$27,184 *	$14,846	45.38 %
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
12/31/2000**	13,719	22,120	8,401	62.05

This plan covers inactive participants. There are no related payroll costs.
*Estimated liabilities as of 12/31/05 are based on January 1, 2005, data.
**Data provided to actuary was unaudited.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollar amounts in thousands)

Years Ended December 31	Annual Required Contribution	Employer Contributions	Percentage Contributed
2005	$ 1,443	$ 1,000	71.97 %
2004	1,717	2,000	124.78
2003	1,972	177	9.20
2002	2,011	813	40.46
2001	1,483	1,349	90.70
2000	1,246	1,357	108.91

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STATISTICAL SECTION

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PORT OF SEATTLE

STATISTICAL SECTION NARRATIVE AND TABLE OF CONTENTS

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 says 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 presented from enterprise fund perspective only included fiscal year ending 2001 and forward, coinciding with the implementation of GASB 34 in fiscal year 2002 with 2001 figures restated. Schedules included are:

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:

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:

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 – Puget Sound Major Employers, Current Year

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 Function, Last Eight 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 Five Fiscal Years
(accrual basis of accounting)
(in thousands)

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

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

Fiscal Year	2005	2004	2003	2002	2001
OPERATING REVENUES:					
Services	$ 158,462	$ 140,189	$ 168,650	$ 170,853	$ 180,456
Property rentals	247,817	211,848	145,947	131,157	140,361
Fuel hydrant facility revenues	3,491	689	435		
Security grant and contract revenues	6,755	24,476	6,721	5,350	
Total revenue	416,525	377,202	321,753	307,360	320,817
OPERATING EXPENSES BEFORE DEPRECIATION:					
Operations and maintenance	166,920	172,983	164,931	165,903	175,693
Earthquake repair expenses—net of recoveries	2,130	(195)	(2,590)	882	6,861
Law enforcement [(a)]	17,920	17,392	17,076		
Administration	31,486	30,890	25,579	45,547	38,401
Environmental	7,739	2,200	4,071	8,607	(1,033)
Total operating expenses before depreciation	226,195	223,270	209,067	220,939	219,922
NET OPERATING INCOME BEFORE DEPRECIATION	190,330	153,932	112,686	86,421	100,895
DEPRECIATION	129,788	110,175	85,076	84,853	81,115
OPERATING INCOME	60,542	43,757	27,610	1,568	19,780
NONOPERATING INCOME (EXPENSE):					
Ad valorem tax levy revenue	62,417	59,357	57,793	39,309	35,721
Passenger facility charges revenue and related interest income	56,506	56,129	54,373	53,675	43,961
Grants and donations	109,655	118,428	32,790	17,175	27,822
Investment income—net [(b)]	14,651	6,240	5,469		
Revenue and capital appreciation bond interest expense	(85,502)	(58,401)	(44,136)	(36,815)	(35,698)
Passenger facility charges revenue bond interest expense	(12,604)	(5,923)	(3,869)	(3,121)	(2,323)
General obligation bond interest expense—net	(12,629)	(11,520)	(9,674)	(8,431)	(7,317)
Public expense	(4,404)	(665)	(396)	(5,425)	(3,843)
Other expense—net	(29,006)	(6,288)	(15,707)	11,972	8,508
Total nonoperating income—net	99,084	157,357	76,643	68,339	66,831
INCREASE IN NET ASSETS	159,626	201,114	104,253	69,907	86,611
TOTAL NET ASSETS:					
Beginning of year	1,923,910	1,722,796	1,618,543	1,548,636	1,462,025
End of year	$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 administrative 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	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Port District Assessed Value [(a)]	$ 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	$ 122,883,077
Port of Seattle Property Tax Rates	$ 0.25	$ 0.25	$ 0.26	$ 0.19	$ 0.19	$ 0.22	$ 0.24	$ 0.26	$ 0.28	$ 0.29
Overlapping Property Tax Rates:										
Washington State	2.69	2.76	2.90	2.99	3.15	3.30	3.36	3.51	3.52	3.50
King County	1.38	1.43	1.35	1.45	1.55	1.69	1.77	1.85	2.13	2.21
Cities and Towns [(b)]	2.45	2.47	2.40	2.49	2.69	2.77	2.77	2.90	2.94	2.94
School Districts [(b)]	3.02	3.08	3.13	3.13	3.38	3.69	3.89	3.74	3.93	3.90
Other [(c)]	0.91	0.86	0.86	0.84	0.83	0.90	0.91	0.62	0.83	0.78
Total Direct and Overlapping Property Tax Rates [(d)]	$ 10.70	$ 10.85	$ 10.90	$ 11.09	$ 11.79	$ 12.57	$ 12.94	$ 12.88	$ 13.63	$ 13.62

(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 TAX PAYERS
As of December 31, 2005
(in thousands)

Taxpayer	Taxable Assessed Value	Percentage of Total County Taxable Assessed Value
Boeing	$ 2,629,884	1.1%
Microsoft	1,429,606	0.6%
Puget Sound Energy/Gas/Electric	1,347,182	0.5%
Qwest Corporation Inc.	1,092,777	0.4%
AT&T Wireless	780,962	0.3%
EOP	499,896	0.2%
Alaska Airlines	441,939	0.2%
Bank of America	416,715	0.2%
Union Square Limited	373,591	0.2%
Martin Selig	325,269	0.1%
Total	$ 9,337,821	3.8%

Source: King County Department of Assessments

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

Fiscal Year	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Total Property Tax Levies [a]	$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	$35,671,608
Tax Collections:										
Current Tax Collections	$61,704,536	$58,630,165	$56,264,058	$38,972,071	$34,899,756	$34,910,452	$34,901,226	$34,819,024	$34,811,146	$34,718,384
Delinquent Tax Collections		813,879	1,610,419	819,750	748,454	750,877	760,530	842,505	854,298	947,716
Total Tax Collections	$61,704,536	$59,444,044	$57,874,477	$39,791,821	$35,648,210	$35,661,329	$35,661,756	$35,661,529	$35,665,444	$35,666,100
Outstanding Delinquent Taxes	$ 1,095,014	$ 236,088	$ 154,368	$ 26,680	$ 16,410	$ 4,424	$ 10,273	$ 3,805	$ 617	$ 5,508
Percent of Current Taxes Collected	98.3%	98.2%	97.0%	97.9%	97.9%	97.9%	97.8%	97.6%	97.6%	97.3%
Ratio of Outstanding Delinquent Taxes to Total Tax Levy	1.7%	0.4%	0.3%	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	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**
General Obligation Bonds	$ 380,225	$ 397,285	$ 217,285	$ 229,030	$ 240,125	$ 250,685	$ 141,300	$ 148,685	$ 155,715	$ 162,930
Revenue Bonds	2,354,435	2,078,760	2,150,875	1,634,497	1,677,795	1,283,780	966,774	760,430	787,120	567,340
Commercial Paper	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	3,140
Passenger Facility Charge Revenue Bond	235,635	243,475	250,940	258,050	262,500	262,500	262,500	262,500		
Fuel Hydrant Special Facility bond	121,140	121,140	121,140							
Total Debt	$ 3,161,645	$ 2,888,365	$ 2,845,290	$ 2,237,127	$ 2,256,310	$ 1,873,207	$ 1,459,410	$ 1,256,943	$ 953,831	$ 733,410
Ratio of Total Debt to Personal Income (a)	4.0%	3.6%	3.6%	2.9%	2.9%	2.4%	2.0%	1.9%	1.7%	1.4%
Total Debt Per Capita (b)	$ 1,749	$ 1,615	$ 1,599	$ 1,261	$ 1,283	$ 1,078	$ 848	$ 739	$ 568	$ 442

(a) See Schedule 11 for Personal Income of King County data used in this calculation. Ratio of 2004 and 2005 is calculated using 2003 Personal Income figure.

(b) See Schedule 11 for Population of King County data used in this calculation (1996 through 2005 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	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
General Obligation Bonds	$ 380,225	$ 397,285	$ 217,285	$ 229,030	$ 240,125	$ 250,685	$ 141,300	$ 148,685	$ 155,715	$ 162,930
Percentage of General Obligation Bonds to the Assessed Value of Taxable Property [a]	0.2%	0.2%	0.1%	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%
General Obligation Bonds Per Capita [b]	$ 210	$ 222	$ 122	$ 129	$ 137	$ 144	$ 82	$ 87	$ 93	$ 98

(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 (1996 through 2005 figures are estimated except 2000 census data).

Schedule 8
COMPUTATION OF DIRECT AND OVERLAPPING GENERAL OBLIGATION DEBT
As of December 31, 2005
(in thousands)

Governmental Unit	Outstanding	Estimated Percentage Applicable [a]	Estimated Share of Direct and Overlapping Debt
Port of Seattle	$ 380,225	100.0%	$ 380,225
Estimated Overlapping General Obligation Debt:			
King County	895,983	100.0%	895,983
Cities and Towns	1,344,565	99.7%	1,340,903
School Districts	2,140,080	94.6%	2,024,890
Other	389,343	99.3%	386,581
Total Estimated Overlapping Debt			$ 4,648,357
Total Direct and Estimated Overlapping Debt			$ 5,028,582

(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 2005 (Statutory Debt Limitation)

Assessed Value of Taxable Property for 2005 [(a)]	$248,911,782
Debt Limit (nonvoted debt, including limited tax general obligation bonds) 0.25% of assessed value of taxable property [(b)]	$ 622,279
Less: Outstanding Limited Tax General Obligation Bonds	(380,225)
Less: Capital leases and other general obligations	
Non-voted General Obligation Debt Margin	$ 242,054
Debt Limit, Total General Obligation Debt 0.75% of assessed value of taxable property [(b)]	$ 1,866,838
Less: Total Limited Tax General Obligation Bonds	(380,225)
Less: Capital leases and other general obligations	
Voted General Obligation Debt Margin	$ 1,486,613

Fiscal Year	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Non-voted General Obligation Bonds Limit	$ 622,279	$ 589,586	$ 562,486	$ 527,492	$ 471,050	$ 415,803	$ 376,056	$ 338,475	$ 317,333	$ 307,208
Less: Total debt applicable to the Non-voted General Obligation Bond Limit	(380,225)	(397,285)	(217,285)	(229,030)	(240,125)	(250,685)	(141,300)	(148,685)	(155,715)	(162,930)
Non-voted General Obligation Debt Margin	$ 242,054	$ 192,301	$ 345,201	$ 298,462	$ 230,925	$ 165,118	$ 234,756	$ 189,790	$ 161,618	$ 144,278
Total debt applicable to the Non-voted General Obligation Bonds Limit as a percentage of the Non-voted General Obligation Bonds Limit	38.9%	32.6%	61.4%	56.6%	49.0%	39.7%	62.4%	56.1%	50.9%	47.0%
Voted General Obligation Bonds Limit	$ 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	$ 921,623
Less: Total debt applicable to the Voted General Obligation Bond Limit	(380,225)	(397,285)	(217,285)	(229,030)	(240,125)	(250,685)	(141,300)	(148,685)	(155,715)	(162,930)
Voted General Obligation Debt Margin	$ 1,486,613	$ 1,371,472	$ 1,470,174	$ 1,353,445	$ 1,173,026	$ 996,724	$ 986,868	$ 866,741	$ 796,285	$ 758,693
Total debt applicable to the Voted General Obligation Bonds Limit as a percentage of the Voted General Obligation Bonds Limit	79.6%	77.5%	87.1%	85.5%	83.0%	79.9%	87.5%	85.4%	83.6%	82.3%

(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)]	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Total revenue [(b)]	$ 427,831	$ 382,921	$ 327,269	$ 325,042	$ 335,867	$ 318,818	$ 282,940	$ 250,686	$ 237,490	$ 216,465
Gain from sale of assets—excluding net unrealized loss (gain) from investments	8,112	5,772	8,339	(4,327)	(5,046)	(2,465)	2,380	2,107		3,996
Total revenue available for revenue bond debt service	435,943	388,693	335,608	320,715	330,821	316,353	285,320	252,793	237,490	220,461
Expenses payable from revenue [(c)]:										
Total expense before depreciation and interest	257,075	231,696	225,613	228,562	227,904	206,983	183,551	154,309	149,138	130,978
Less Port general purpose tax levy	(24,233)	(20,865)	(32,772)	(15,131)	(11,395)	(15,865)	(20,285)	(20,123)	(19,853)	(19,101)
Plus (less) amortization of bond premium, discount, and deferred financing costs—net	2,571	1,403	1,504	(71)	(933)	(1,195)	(1,337)	(1,416)	(1,540)	(1,467)
Less net loss on sale and abandonment of assets	(28,765)	(3,149)	(14,022)	(5,819)	(4,353)	(6,710)			(6,782)	
Net expenses payable from revenue	206,648	209,085	180,323	207,541	211,223	183,213	161,929	132,770	120,963	110,410
Net revenue available for first lien debt service	$ 229,295	$ 179,608	$ 155,285	$ 113,174	$ 119,598	$ 133,140	$ 123,391	$ 120,023	$ 116,527	$ 110,051
Debt service on first lien bonds	$ 84,614	$ 75,535	$ 78,577	$ 67,782	$ 68,399	$ 67,271	$ 66,581	$ 58,334	$ 56,143	$ 54,792
Coverage on first lien bonds	2.71	2.38	1.98	1.67	1.75	1.98	1.85	2.06	2.08	2.01
Net revenue available for intermediate lien debt service [(d)]	$ 144,681	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Debt service on intermediate lien bonds [(d)]	$ 2,167	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Coverage on intermediate lien bonds [(d)]	66.77	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net revenue available for subordinate lien debt service	$ 142,514	$ 104,073	$ 76,708	$ 45,392	$ 51,199	$ 65,869	$ 56,810	$ 61,689	$ 60,384	$ 55,425
Debt service on subordinate lien bonds	$ 27,813	$ 23,382	$ 16,748	$ 13,112	$ 11,335	$ 13,660	$ 11,840	$ 8,909	$ 2,290	$ 2,291
Coverage on subordinate lien bonds	5.12	4.45	4.58	3.46	4.52	4.82	4.80	6.92	26.37	24.19

(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) Total operating revenue is adjusted for the following: Fuel hydrant rental income (applicable only in 2005, 2004 and 2003) and difference of escalating rental income on straight line basis versus contracted amount are excluded and non-operating revenues such as investment income, accounts receivable interest, revenues from the sale of scrap, receipts in lieu of taxes, state forest board receipts, fines, and miscellaneous revenues are added back.

(c) Expenses payable from revenue represents total operating expenses before depreciation is adjusted for the following: Expenses from non-operating expense such as commercial paper related fees, revenue bond fees, investment expense, election expense, banking services including custodial costs, and miscellaneous expenses are added and amortization of bond discount and deferred financing costs are deducted.

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

Source: Port of Seattle's Schedules of Net Revenue Available for Revenue Bond Debt Service

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

Fiscal Year	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
King County:										
Population [a]	1,808	1,788	1,779	1,774	1,758	1,737	1,720	1,702	1,680	1,659
Personal Income [b]	N/A	N/A	$ 80,002,571	$ 78,400,551	$ 76,883,017	$ 77,271,598	$ 72,997,198	$ 65,485,103	$ 57,707,202	$ 53,941,626
Per Capita Personal Income [b]	N/A	N/A	$ 45.3	$ 44.6	$ 43.8	$ 44.4	$ 42.2	$ 38.2	$ 34.3	$ 32.6
Unemployment Rate [c]	4.8%	5.2%	6.2%	6.2%	5.1%	4.1%	3.8%	4.0%	4.1%	4.9%
State of Washington:										
Population [a]	6,288	6,207	6,098	6,042	5,975	5,894	5,831	5,750	5,664	5,568
Personal Income [b]	$ 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	$ 139,650,493
Per Capita Personal Income [b]	$ 35.4	$ 35.0	$ 33.3	$ 32.7	$ 32.3	$ 31.8	$ 30.0	$ 28.4	$ 26.5	$ 25.1
Unemployment Rate [c]	5.5%	6.3%	7.4%	7.3%	6.2%	5.0%	4.8%	4.8%	4.9%	5.9%

(a) State of Washington, Office of Financial Management (1996 through 2005 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
Puget Sound Major Employers
As of December 31, 2005

Employer	Number of Employees		Percentage of Total King County Employment
The Boeing Company	64,000		6.6%
Port of Seattle	11,225	(a)	1.2%
Alaska Air Group Inc.	11,150		1.2%
Microsoft Corporation	11,000		1.1%
University of Washington	10,000		1.0%
Safeway Stores	9,293		1.0%
VA Puget Sound Health Care System	8,500		0.9%
Virginia Mason	7,957		0.8%
Amazon.com Inc.	7,500		0.8%
AT&T	7,328		0.8%
Total	147,953		15.3%

(a) Data includes employments generated from the Port which exceeds the number of employees included in the Port's human resources database shown in schedule 13.

Source: 2001-2003 Central Puget Sound Major Employers PinPointer Directory

Schedule 13

Number of Port of Seattle Employees by Division [a]

Last Eight Fiscal Years

Fiscal Year	2005	2004	2003	2002	2001	2000	1999	1998
Aviation	793	811	821	839	817	726	667	625
Seaport	193	198	215	280	444	438	434	411
Economic Development	13	12	17	12	13	16	14	15
Other	573	581	564	573	565	545	478	431
Total	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 1996 through 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	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Domestic										
Deplaned	13,410	13,215	12,277	12,194	12,339	12,999	12,664	11,900	11,460	11,338
Enplaned	13,408	13,154	12,250	12,247	12,345	12,963	12,606	11,810	11,427	11,302
Total Domestic	26,818	26,369	24,527	24,441	24,684	25,962	25,270	23,710	22,887	22,640
International										
Deplaned	1,247	1,225	1,167	1,183	1,191	1,235	1,239	1,095	928	854
Enplaned	1,224	1,211	1,106	1,115	1,161	1,211	1,196	1,058	914	831
Total International	2,471	2,436	2,273	2,298	2,352	2,446	2,435	2,153	1,842	1,685
Grand Total	29,289	28,805	26,800	26,739	27,036	28,408	27,705	25,863	24,729	24,325

Source: Seattle-Tacoma International Airport Activity Reports

Schedule 15

SEATTLE-TACOMA INTERNATIONAL AIRPORT AIRCRAFT OPERATIONS LEVEL

Last Ten Fiscal Years

Fiscal Year	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**
Air Carrier	254,829	250,605	210,603	220,786	227,579	236,355	233,914	227,231	235,447	239,063
Air Taxi	83,928	105,377	140,777	139,821	168,322	203,723	194,352	175,037	143,513	149,882
General Aviation	2,938	2,788	3,336	4,069	4,668	5,448	5,321	5,183	6,180	6,077
Military/ Training	67	124	54	59	66	151	73	125	158	194
Grand Total	341,762	358,894	354,770	364,735	400,635	445,677	433,660	407,576	385,298	395,216

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	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**
Domestic - Air Freight	212,505	205,333	205,838	215,546	218,513	236,527	225,898	221,132	208,828	222,017
International - Air Freight	72,271	79,829	73,664	71,048	75,773	74,854	74,603	73,033	72,319	63,960
Air Mail	53,815	62,355	71,916	88,159	107,249	145,539	143,723	134,162	112,639	102,241
Grand Total	338,591	347,517	351,418	374,753	401,535	456,920	444,224	428,327	393,786	388,218

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	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**
International Containers										
Import Full	846,311	704,664	542,863	537,504	497,068	594,991	583,822	571,307	462,981	415,787
Export Full	484,997	387,503	348,856	358,521	329,390	378,208	391,284	420,689	498,349	542,544
Empty	414,490	374,084	293,062	277,223	226,331	228,642	220,044	266,108	227,415	239,013
Total International Containers	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	1,197,344
Total Domestic Containers	342,131	309,607	301,684	265,624	262,320	286,427	294,899	285,622	287,068	276,217
Grand Total	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	1,473,561

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	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Non-containerized break bulk	144,280	149,749	117,725	174,780	220,427	449,184	474,465	606,723	702,751	716,196
Grain	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	3,207,013
Petroleum	874,475	853,756	909,879	1,098,352	1,591,481	1,914,201	1,816,581	1,491,177	2,185,134	1,656,294
Molasses	36,874	43,541	46,814	53,349	52,917	37,154	29,805	55,885	38,234	43,539
Grand Total	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	5,623,042

Source: Port of Seattle Container and Tonnage Statistics Reporting System

SCHEDULE 19
SEATTLE HARBOR CRUISE TRAFFIC
Last Ten Fiscal Years

Fiscal Year	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**
Cruise Vessel Calls [(a)]	169	150	99	75	58	36	6	NA	NA	NA
Cruise Passengers	686,357	563,000	345,000	244,905	170,495	119,002	6,615	8,783	7,152	10,398

(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, 2005

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	1,232,300	sq. ft.
	Tenants	244,100	sq. ft.
	Port Occupied	299,300	sq. ft.
	Public/common	774,800	sq. ft.
	Mechanical	474,300	sq. ft.
	Total	3,024,800	sq. ft.
	Number of passenger gates	80	
	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		

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	22	(of which 3 owned by SSAT)
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)

Source: Port of Seattle Records