

Port of Shelton
Annual Report
December 31, 2006

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Annual Report
Port of Shelton
MCAG No. 1746

Submitted pursuant to RCW 43.09.200

to the

State Auditor's Office

For the Fiscal Year Ended December 31, 2006

Certified correct this 31st day of May 2007
to the best of my knowledge and belief:

NAME: George Fox, CPA
TITLE: Port Auditor
PREPARED BY: George Fox, CPA ; Data supplied by Debbi Hufana, Finance
Manager
PHONE: (360) 450-9908 or (360) 426-1151

GEORGE FOX, CPA
VANCOUVER, WA
(360) 450-9908

To the Board of Commissioners
Port of Shelton
W 21 Business Park Rd.
Shelton, WA

I have compiled the accompanying statement of net assets of the Port of Shelton as of December 31, 2006, and the related statements of revenues, expenses and changes in fund net assets, and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants as modified by the State Auditor of Washington.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. I have not audited or reviewed the accompanying financial statements and supplementary information and accordingly, I do not express an opinion or any other form of assurance on them. I am not independent with respect to the Port of Shelton.

Sincerely,

George Fox
Certified Public Accountant

Vancouver, Washington
May 31, 2007

Management's Discussion and Analysis

As managers of the Port of Shelton, we offer this narrative overview and analysis of the financial activities for the year ended December 31, 2006. We present this information in conjunction with the information included in our financial statements, which follow.

Financial Highlights

- Total assets of the Port of Shelton exceeded its liabilities by \$14.4 million as of December 31, 2005 (reported as *net assets*). This represented an increase of \$.5 million from the Port's net assets of \$13.9 million as of December 31, 2005.
- Of the \$14.4 million and \$13.9 million in net assets as of December 31, 2006 and 2005, respectively, \$3.7 million in 2006 and \$3 million in 2005 are "unrestricted net assets." Unrestricted net assets represent the amount available to be used to meet the Port's ongoing obligations to citizens and creditors. The remaining \$10.7 million and \$10.9 million in 2006 and 2005, respectively, was invested in capital assets, net of related debt. Capital assets, net of related debt represent the net book value of all the Port's property, plant & equipment (including infrastructure assets). This amount was \$16.3 million less related general obligation bonds and notes payable of \$4.0 million in 2006 and \$15.1 million less related general obligation bonds and notes payable of \$4.2 million in 2005. *The Port is continually investing in its capital asset base, shown by this \$1.4 million increase in the book value of its assets*

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Port's basic financial statements. The Port's basic financial statements included two components: 1) financial statements, and 2) notes to the financial statements. The Port is an "Unclassified" Port District, and is not required to present its financial statements in conformity with Generally Accepted Accounting Principles. The Port is not required to reflect both a government-wide perspective financial report and a fund perspective financial report since the Port maintains a single enterprise fund which uses the same measurement focus (economic resources) and accounting basis (full accrual) as would be reflected in the government-wide financial statements.

The following is a brief discussion of the financial statements found on pages 11 - 15 of this report.

- *Statement of Net Assets* – reflects the Port's financial position at year-end. Financial position is represented by the difference between assets owned and liabilities owed at a specific point in time. The difference between the two is reflected as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.
- *Statement of Revenues, Expenses and Changes in Fund Net Assets* – reflects the change in the Port's financial position (net assets) during the current year. All

changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and unpaid liabilities owed to vendors). This statement presents net income or loss from operations as well as non-operating revenues and expenses, capital contributions and extraordinary items.

- *Statement of Cash Flows* – reflects the net increases or decreases in cash from four activities: 1) *Operating activities*, with a reconciliation of cash flows from operating activities to net income or loss from operations; 2) *Non-capital financing activities*; 3) *Capital and related activities*; 4) *Investing activities*.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 16 – 34 of this report.

Financial Analysis

The Port's total assets exceeded liabilities by \$14.4 million as compared to \$13.9 million at December 31, 2005.

The largest portion of the Port's net assets (86.7% as of December 31, 2006 as compared to 78.5% as of December 31, 2005) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, infrastructure, and construction in progress) less any related debt used to acquire those assets that is still outstanding. Although the Port's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Port has a total long-term debt to net assets ratio of 27.8% and 32.7% as of December 31, 2006 and 2005, respectively. The Port's debt is decreasing relative to its net assets as a result of repaying some of its long-term debt in 2006. The income to service the debt will be derived from the revenue streams associated with the new capital assets constructed by the Port. The Commissioners monitor this debt ratio and believe the degree of leverage is appropriate given the Port's capital projects and the degree of risk associated with the projects. The Port may continue to further leverage its asset base in the future.

Condensed Financial Data

Port of Shelton's Net Assets *(in thousands of dollars)*

	<u>2006</u>	<u>2005</u>
Current assets	\$ 2,184	\$ 2,975
Capital assets and other non-current assets	<u>16,631</u>	<u>15,437</u>
Total Assets	<u>18,815</u>	<u>18,412</u>
Long-term liabilities outstanding	4,024	4,032
Other liabilities	<u>382</u>	<u>507</u>
Total Liabilities	<u>4,406</u>	<u>4,539</u>
Net Assets:		
Invested in capital assets, net of related debt	12,226	10,894
Restricted for asset acquisition	0	0
Unrestricted	<u>2,183</u>	<u>2,979</u>
Total Net Assets	<u>14,409</u>	<u>13,873</u>

Port of Shelton's Changes in Net Assets
(in thousands of dollars)

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Property lease & rental operations	\$ 1,504	\$ 1,127
Marina operations	62	62
Other operations	<u>10</u>	<u>161</u>
Total Operating Revenues	<u>1,577</u>	<u>1,350</u>
Non-operating Revenues:		
Investment income	101	79
Property taxes	506	487
Operating grants	492	
Net change in fair value of investments	2	(48)
Other non-operating revenues	<u>35</u>	<u>15</u>
Total non-operating Revenues	<u>1,136</u>	<u>533</u>
Total Revenues	<u>2,713</u>	<u>1,883</u>
Operating Expenses:		
General Operations	181	153
Maintenance	155	196
General and Administrative	933	690
Depreciation	<u>750</u>	<u>563</u>
Total Operating Expenses	<u>2,019</u>	<u>1,602</u>
Non-operating Expenses:		
Interest expense	158	101
Election expense	0	6
Environmental studies		
Bad debt expense	0	1
Other non-operating expenses	<u>1</u>	<u>90</u>
Total non-operating expenses	<u>159</u>	<u>197</u>
Total Expenses	<u>2,178</u>	<u>1,800</u>
Excess (Deficiency) Before Capital Contributions, Special & Extraordinary Items	535	83
Contributions	- 0 -	- 0 -
Special & extraordinary items	(- 0 -)	(- 0 -)
Change in Net Assets	<u>\$ 535</u>	<u>\$ 83</u>
Ending Net Assets	<u>\$ 14,408</u>	<u>\$ 13,873</u>

Overall Analysis of Financial Position and Results of Operations

2006 activities resulted in a net increase in the Port's net assets of \$.5 million. There were no significant changes in the Port's financial position or results of operations during the year ended December 31, 2006. There were no significant non-operating items impacting the Port's increase in net assets.

Capital Assets. The Port's investment in capital assets as of December 31, 2006 amounts to \$16.4 million (net of accumulated depreciation of \$7.6 million). This investment in capital assets includes land and land rights, infrastructure, buildings and other improvements, furnishings and equipment, as well as construction in progress.

The Port invested \$2.2 million in capital assets during the year ended December 31, 2006. There were no commitments under construction contracts outstanding at year-end.

Additional information on the Port's capital assets can be found in Note 4 to the financial statements.

Port of Shelton's Capital Assets
(in thousands of dollars)

	<u>2006</u>
Land & land rights	\$ 1,841
Buildings & building improvements	8,970
Utility Systems	3,977
Roads Parking Areas & Signs	2,917
Docks & Marina Equipment	200
Railroads	394
Airport Runways, Taxiways & Related	3,669
Trucks & Automobiles	132
Other Equipment	453
Construction in progress	<u>1,413</u>
Total Capital Assets	23,966
Less: Depreciation	(7,606)
Total, net of depreciation	<u>\$ 16,360</u>

Bond Debt. At December 31, 2006, the Port had general obligation bond debt outstanding of \$2.7 million.

The Port had no revenue bonds outstanding at any time during the year ended December 31, 2005.

Additional information on the Port's bond debt obligations is presented in Note 9 to the financial statements.

**PORT OF SHELTON
STATEMENT OF NET ASSETS
December 31, 2006**

ASSETS

Current Assets

Cash and equivalents	\$ 120,700
Investments	1,902,482
Taxes receivable	24,131
Accounts receivable	90,897
Prepaid expenses & Other	<u>45,547</u>
Total Current Assets	2,183,757

Non-Current Assets

Capital Assets

Property, plant and equipment	22,553,880
Construction in progress	1,412,367
Less: accumulated depreciation	<u>(7,605,595)</u>
Net Capital Assets	16,360,651

Other Non-Current Assets

Intangible assets, net	<u>270,642</u>
Total Other Non-Current Assets	270,642

Total Assets **\$ 18,815,040**

**PORT OF SHELTON
STATEMENT OF NET ASSETS
December 31, 2006**

LIABILITIES

Current Liabilities

Accounts payable	\$ 212,381
Accrued interest payable	56,545
Current portion of long term obligations	115,770
Other current liabilities	<u>106,905</u>
Total Current Liabilities	491,601

Non-current Liabilities

General obligation bonds	2,660,000
Unamortized premium on bonds, net of unamortized discount on bonds	22,546
Other non-current liabilities	<u>1,232,361</u>
Total Non-current Liabilities	3,914,907

Total Liabilities 4,406,508

Net Assets

Invested in capital assets net of related debt	12,224,785
Restricted for asset acquisition	0
Unrestricted	<u>2,183,751</u>

Total Net Assets **\$ 14,408,533**

PORT OF SHELTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended December 31, 2006

Operating Revenue	
Marina operations	\$ 62,008
Property lease/rental operations	1,433,671
Utility operations	70,610
Other revenues	<u>10,431</u>
Total Operating Revenue	1,576,720
Operating Expenses	
General operations	180,937
Maintenance	154,212
General and administrative	933,423
Depreciation	<u>721,041</u>
Total Operating Expenses	<u>1,989,614</u>
Operating Income/(Loss)	<u>(412,894)</u>
Non-Operating Revenues (Expenses)	
Investment income	100,760
Net increase (decrease) in the fair value of investments	2,897
Taxes levied for general purposes	506,837
Other non-operating revenue	491,797
Interest expense	(158,032)
Other	<u>3,724</u>
Total Non-Operating Revenue (Expenses)	<u>947,983</u>
Increase (decrease) in net assets	535,089
Net assets – beginning of period	<u>13,873,447</u>
Net assets – end of period	<u><u>\$14,408,533</u></u>

**PORT OF SHELTON
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2006**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers & others	\$ 2,554,994
Cash payments to suppliers for goods and services	(904,336)
Cash payments to employees and on their behalf	<u>(725,045)</u>
Net cash provided by operating activities	925,613

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Property taxes	506,837
Non-operating revenues	599,178
Non-operating expenses	<u>(158,032)</u>
Net cash provided (used) by non-capital financing activities	947,983

CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:

Purchase and construction of capital assets	(1,265,453)
Repayment of long-term bond debt	(314,892)
Other capital & related costs	()
Interest and issuance costs on bond debt	<u>(158,032)</u>
Net cash provided (used) by capital & related financing activities	(996,065)

CASH FLOWS FROM INVESTING ACTIVITIES:

(Purchase) or sale of securities, net	(1,294,797)
Interest and dividends received	<u>100,760</u>
Net cash provided (used) by investing activities	<u>(1,194,037)</u>

Net Increase (decrease) in Cash and Cash Equivalents	(316,506)
Cash and cash equivalents, beginning of year	<u>437,206</u>

Cash and cash equivalents, end of year **\$ 120,700**

**PORT OF SHELTON
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2006**

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Net operating income (loss)	\$ (412,894)
Adjustments to reconcile net income to net cash from operating activities:	
Depreciation & amortization	721,041
Change in accounts receivable	(68,763)
Change in other current assets	759,268
Change in accounts payable	59,682
Change in other current liabilities	<u>(132,721)</u>
Total adjustments	1,338,507
Net cash provided (used) by operating activities	<u>\$ 925,613</u>

Note 1 – Summary of Significant Accounting Policies

The Port of Shelton was created in 1948 and operates under the laws of the state of Washington applicable to a Port district. The financial statements of the Port have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) in the United States of America, as they are applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles, referred to as Generally Accepted Government Accounting Standards (GAGAS). The State Auditor of Washington, under authority of RCW Ch. 43.09, has promulgated additional accounting rules which must be followed by the Port under the laws of Washington. All departures from GAAP or GAGAS, whether material or not, are documented and explained in these notes.

A. Reporting Entity

The Port of Shelton is a special purpose government that provides industrial and commercial property rentals, a marina, and airport facilities to the general public and is supported by user charges, taxes, and a property tax levy. An elected three-member board governs the Port.

B. Basis Of Accounting And Reporting

The accounting policies of the Port conform to accounting principles generally accepted in the United States of America, as applicable to proprietary funds of governmental units, except as otherwise noted. The Port has chosen to use Financial Accounting Standards Board pronouncements issued after November 30, 1989 when there are no applicable Government Accounting Standards Boards Statements. The Port accounts for its operations on a flow of economic resources measurement focus.

The accounting records of the Port are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The Port uses the *Budgeting, Accounting and Reporting System for Classified Port Districts (BARS)* in the State of Washington, even though the Port is an Unclassified Port District and thereby entitled to use the cash basis of accounting under BARS.

The Port uses the full-accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred regardless of the timing of the related cash flows. All assets and liabilities (whether current or non-current) are included on the statements of net assets.

Note 1 – Summary of Significant Accounting Policies, Continued

The reported fund equity (total net assets) is segregated into invested in capital assets, net of related debt, and unrestricted net assets. The operating statement presents increases (revenues and gains) and decreases (expenses and losses) in net total assets. The Port discloses changes in cash flows by a separate statement that presents their operating, non-capital financing, capital and related financing and investing activities.

C. Use of Estimates

The preparation of financial statements in conformity with GAAP 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. 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, federal, state and local government regulations and changes in law.

E. Assets, Liabilities and Equities

1. Cash and Cash Equivalents - See Note 2 and the Statement of Cash Flows.

It is the Port of Shelton's policy to invest all temporary cash surpluses. At December 31, 2006 the Port had \$1,902,482 in short-term residual investments of surplus cash. This amount is shown on the financial statements as investments, not as cash equivalents, because many of these investments are certificates of deposit at banks.

In addition to these investments, the Port had cash in banks of \$120,700 at December 31, 2006.

Note 1 – Summary of Significant Accounting Policies, Continued

2. Investments – See Note 2

Investments are stated at fair value. Interest on debt securities held as investments is recognized in non-operating revenues as received. Use of this method does not result in a material difference from the “when earned” recognition method required by GAAP. Changes in the fair value of investments are included in non-operating revenues (for unrealized gains) or expense (for unrealized losses).

3. Taxes Receivable

Taxes receivable consists of property taxes and related interest and penalties. Because such taxes are considered liens on property, and all property taxes are ultimately collected with interest at the statutory rate, the Port has not established a reserve for doubtful taxes receivable. (See Note 3.)

4. Accounts Receivable

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

The Port uses the reserve method of accounting for doubtful accounts. As of December 31, 2006, the Port’s reserve was \$45,451. The amount of accounts receivable shown in the financial statements is net of this reserve amount. The Port accrues this reserve amount as 0.4% of sales.

5. Inventories

The Port expenses office supplies and maintenance parts inventory and supplies in the period they are acquired. If these items were inventoried, no material change in net income would result.

6. Capital Assets and Depreciation - See Note 4

7. Intangible Assets, net

Intangible assets, net, represents the cost of long-lived organizational master plans net of accumulated amortization, as well as preliminary costs incurred for proposed construction

Note 1 – Summary of Significant Accounting Policies, Continued

projects. If construction results, the related costs become part of the cost of the asset; if the project is finally abandoned, related costs are charged to expense.

9. Original Issue Premium, net

The original issue discount and premium costs are amortized over the lives of the bonds using the straight line method of amortization. This method does not result in a material difference from the method required under generally accepted accounting principles.

The amounts of premium and discount are netted, and shown on the financial statement as unamortized bond premium liability.

10. Compensated Absences

Employee absences are funded from current revenues when absences occur. Unused vacation balances may be carried over to the next year. The Port records vacation leave expense on a “pay-as-you-go” basis, which is not significantly different from the accrual basis. Therefore, the Port does not reflect a liability for accumulated & vested vacation leave payable in these financial statements. The amount, if it had been accrued, would have been substantially less than \$10,000 at year-end. The Port does not record accumulated unused sick leave. Sick leave is accumulated at the rate of one day for each full month of service up to a maximum of 120 days and is forfeited upon separation.

11. Other Accrued Liabilities

Other accrued liabilities included the following at December 31, 2006:

Accrued wages & benefits	\$ 5,955
Customer deposits	65,526
Retainage on contracts	35,423
Other current liabilities	<u>62,315</u>
Total other accrued liabilities	<u>\$169,219</u>

12. Long-Term Debt - See Note 9

Note 1 – Summary of Significant Accounting Policies, Continued

13. Net Assets

Net assets are reported under one of three classifications as required by GASB Statement #34.

Invested in Capital Assets, Net of Related Debt – Represents the historical cost of capital assets reduced for accumulated depreciation less outstanding debt attributable to the acquisition, construction or improvement of those assets.

Restricted – Represents net assets that have been externally restricted by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. The Port maintains a variety of internal use restrictions on various funds, however, none of these funds is restricted as defined here.

Unrestricted – Represents net assets not included in either of the other two categories of net assets.

14. Operating and Non-operating Revenues and Expenses

Charges for services provided by the Port as well as for the use of the Marina and industrial property (land and buildings), utility operations, and timber operations are reported as operating revenues. Costs associated with these operating segments are reported as operating costs. Ad Valorem and other tax revenues, as well as grants, settlements and other miscellaneous revenues are reported as non-operating revenues. Interest on debt, costs of elections, and other miscellaneous costs are reported as non-operating expenses.

Note 2 – Deposits and Investments

Deposits:

As of December 31, 2006, the carrying amount of the Port's cash deposits with financial institutions was \$120,700. The total carrying amount of investments at December 31, 2006 was \$1,902,482.

The Port's deposits at year-end were entirely covered by Federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The FDIC covers the Port's insured deposits. The PDPC provides collateral protection. The PDPC (established under Chapter 39.58 of the Revised Code of Washington) constitutes a multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the PDPC's agent in the name of the collateral pool.

Investments:

The Port used quoted market prices to estimate the fair value of all investments. Realized gains and losses on investments held more than one fiscal year and sold in the current year are included as a change in the fair value of investments.

The Port's investments are categorized to give an indication of the risk assumed at year-end. The following summary shows the Port's investments at year-end categorized by risk. Category 1 includes investments that are insured, registered or held by the Port or its agent in the Port's name. The Port investments had an unrealized increase in fair market value of \$2,116 for the year ended December 31, 2006.

Category	December 31, 2006
Category 1	\$1,902,482

Note 2 – Deposits and Investments, Continued

The Port uses a strategy of investing surplus funds in a mix of investment instruments, including: short and intermediate term bonds of the US Government or its Agencies that may be held to maturity, certificates of deposit at regulated Washington banks, and mutual funds of US Government Securities managed by professional fund managers.

As required by state law, all investments of Port funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, or certificates of deposit with Washington State Banks, or savings and loan institutions.

On May 15, 2002, the Port Commission passed Resolution 02-04, appointing one of its members to be the Port Treasurer. The Treasurer maintains the accounts of the Port at Heritage Bank in Shelton, a certified Public Depository Institution. The Port invests its surplus cash according to a Policy adopted by the Commission in Resolution 02-05 dated May 15, 2002, that uses three criteria to determine what investments are appropriate. The three criteria, in order of importance, are: safety of principal; liquidity of the investment; and overall return on investment.

Note 3 – Property Taxes

The Mason County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed by the 10th day of the month following collection to the Port by the Mason County Treasurer. A revaluation of all property is required every four years.

Property Tax Calendar

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

Property taxes are recorded as revenues in January of the year for which the tax is levied, in accordance with SGAS 33. Current and past-due taxes are shown as a receivable. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. State law allows for the sale of property for failure to pay taxes.

Note 3 – Property Taxes (Continued)

The Port may levy up to \$0.45 per \$1,000 of assessed valuation for general Port purposes. This amount may be reduced for any of the following reasons:

1. Washington State law, in RCW 84.55.010, as amended by initiative 747, limits the growth of regular property taxes to one percent per year, after adjustments for new construction. If the assessed valuation increases by more than one percent due to revaluation, the levy rate will be decreased.
2. The Port may voluntarily levy taxes below the legal limit.
3. The State Constitution limits total regular property taxes to 1% of assessed valuation. If the combined taxes of all districts within the county exceed this amount, each is proportionately reduced until the total is at or below the 1% limit.

The Port's regular levy for 2006 and 2005 was \$.37810 and \$.38271 per \$1,000 on a total assessed valuation of \$1,331,052,444 and \$1,281,918,267 for total regular levies of \$503,269 and \$490,000, respectively.

Note 4 – Capital Assets and Depreciation

- A. Major expenses for capital assets, including major repairs that increase useful lives, are capitalized. Maintenance, repairs and minor renewals are accounted for as expenses when incurred.

All capital assets are valued at historical cost. Donations of capital assets from developers and customers are recorded at estimated fair market values at the date of donation. Certain capital assets (notably Sanderson Airport) were acquired from other governmental entities many years ago, and these assets are also recorded at estimated fair market value.

Certain capital assets have been acquired through bankruptcy proceedings from former tenants in satisfaction of amounts owed the Port. These assets are recorded at the lesser the amount owed by the tenant to the Port or the estimated fair market value of the capital asset received.

Note 4 – Capital Assets and Depreciation

The Port acquired certain assets with funding provided by federal and state financial assistance programs. Depending upon the terms of the agreements involved, the funding governmental unit could retain an interest in these assets, usually in the form of a real property possibility of reverter if the assets are not used for their intended purposes. However, the Port has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account.

An allowance for funds used during construction is capitalized, when material, as part of the cost of the asset. The procedure is intended to remove the cost of financing construction activity from the operating statements and to treat such costs in the same manner as construction labor and material costs. During the year ended December 31, 2005 the Port's capitalizable interest costs were not considered to be material and, therefore, they are not capitalized.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives of 3 to 40 years. For longer-lived assets, such as runways and taxiways, the lives are still limited to 40 years for depreciation purposes. This may result in a larger charge against current earnings than many other Port districts would generate by selecting lives of up to 70 years for long-lived assets such as marine terminal docks, wharfs, and airport runways. The Port of Shelton Commission feels this more conservative approach is appropriate.

Note 4 – Capital Assets and Depreciation (Continued)

B. Capital assets activity for the year ended December 31, 2005 was as follows:

Asset Category	Ending Balance 12/31/2005	Increases	Decreases	Ending Balance 12/31/2006
Land	1,841,473			1,841,473
Buildings	8,716,366	253,989		8,970,355
Utility Systems	3,543,524	427,708		3,971,232
Roads, Parking Areas & Signs	2,656,439	260,420		2,916,859
Docks & Marina Equipment	200,143			200,143
Railroads	327,320	72,554		399,874
Airport Runways, Taxiways & Related	3,668,538			3,668,538
Trucks & Automobiles	131,819			131,819
Other Equipment	453,587			453,587
Construction in Progress	466,686	1,412,367	466,686	1,412,367
Total Assets	<u>22,005,895</u>	<u>2,427,038</u>	<u>466,686</u>	<u>23,965,247</u>
Less accumulated depreciation:	(6,911,348)			(7,605,595)
Total capital assets, net	<u>15,094,547</u>			<u>16,360,652</u>

C. Construction Commitments

Construction in progress represents expenses to date on authorized projects. Costs incurred for construction in progress were \$1,412,367 for the year ended December 31, 2006. The Port had no commitments with contractors outstanding at year-end, 2006.

Note 5 – Stewardship, Compliance and Accountability

There have been no material violations of finance-related legal or contractual provisions.

Note 6 – Pension Plan

Substantially all Port of Shelton full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under a cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380

The following disclosures are made pursuant to GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to

Note 6 – Pension Plan (Continued)

choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

Note 6 – Pension Plan (Continued)

There are 1,168 participating employers in PERS. Membership in PERS actuarial valuation date for the plans as of September 30, 2004 (the most recent data available):

Retirees and Beneficiaries Receiving Benefits	66,896
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	21,031
Active Plan Members Vested	103,039
Active Plan Members Non-vested	53,217
Total	244,183

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2005 were as follows:

	PERS Plan I	PERS Plan II	PERS Plan III
Employer *	2.44%	2.44%	2.44% **
Employee	6.00%	2.25%	***

* The employer rates include the employer administrative expense fee currently set at 0.19%.

** Plan 3 defined benefit portion only.

*** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Note 6 – Pension Plan (Continued)

Both the Port and the employees made the required contributions. The Port’s required contributions for the years ending December 31 were:

	PERS Plan I	PERS Plan II	PERS Plan III
2006	\$0	\$15,446.36	\$0
2005	\$0	\$8,374.45	\$0

Note 7 – Risk Management

The Port maintains insurance against most normal hazards for commercial automobile, property loss, and general liability.

The Port is member of the Washington Governmental Entity Pool (WGEP). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into, or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Inter-Local Cooperation Act.

The Pool was formed July 10, 1987, when two (2) counties and two (2) cities in the state of Washington joined together by signing an inter-local governmental agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool now services cities, counties, health districts, Port districts, water and irrigation districts, fire districts, mosquito and weed control districts, library districts, air pollution districts, area on aging, regional mental health support networks, cemetery, park and recreation, conservation districts, public facilities districts, and public development authorities.

The Pool allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide excellent risk management services and other related services. The Pool provides “occurrence” policies for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk” basis, blanket from using current Statement of Values. The Property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost, automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$50 million for all members. The pool offers employee dishonesty coverage up to a liability limit of \$250,000, which the Port elects to purchase.

Note 7 – Risk Management (Continued)

Members make an annual contribution to fund the Pool. The Pool acquires insurance from unrelated underwriters that are subject to a “per occurrence” \$500,000 deductible on liability loss, \$100,000 deductible on property loss, and \$5,000 deductible on boiler and machinery loss. The member is responsible for the first \$1,000 of the deductible amount of each claim, while the Pool is responsible for the remaining \$499,000 on liability losses, \$99,000 on property loss, \$4,000 on boiler and machinery loss. Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since the Pool is a cooperative program, there is a joint liability among the participating members.

The contract requires new members to remain in the pool for a minimum of three (3) years, and must give notice 60 days before terminating participation. Members joining after October, 2000 join the pool with one full fiscal year commitment and must give six months notice before terminating participation. The Inter-local Governmental Agreement is renewed automatically each year, after the initial three-year period. Even after termination, a member is still responsible for contribution to the Pool for any unresolved, unreported and in-process claims for the period they were a signatory to the Inter-local Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Washington Governmental Entity Pool, and are administered in house. Insurance coverage for the past three years has been sufficient to cover all claim settlements.

A Board of Directors consisting of seven board members governs the pool. Its members elect the board and the positions are filled on a rotating basis. The board meets quarterly, and is responsible for conducting the business affairs of the pool.

Note 8 – Short - Term Debt

The Port has no short term debt.

Note 9 – Long-Term Debt

A. Long-term Debt:

The Port issues general obligation bonds to finance the acquisition or construction of capital assets. The Port is also liable for subordinated interagency Community Economic Revitalization Board (CERB) loans, and Drinking Water State Revolving Fund (DWSRF) loans. These loans are payable from the revenues of the Port.

General obligation bonds currently outstanding are as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>2005</u>
Tax Exempt G.O. Bonds		
2005 General Obligation Bonds	2.91% - 3.80%	\$1,100,000
2003 Series A Serial Bonds	3.15% - 4.86%	1,015,000
2003 Series B Serial Bonds	1.45% - 4.20%	300,000
2003 Series C Deferred Serial Bonds	4.55%	<u>350,000</u>
Total G.O. Debt Outstanding		2,765,000
Less Portion Due Within One Year		<u>(110,000)</u>
Total Long-term Portion of G.O. Debt		<u>\$ 2,655,000</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	110,000	116,383	226,383
2008	115,000	112,765	227,765
2009	115,000	108,684	223,684
2010	125,000	104,478	229,478
2011	125,000	100,114	225,114
2012 – 2016	710,000	422,063	1,132,063
2017 – 2021	880,000	246,267	1,126,267
2022 – 2025	585,000	44,921	629,921
Totals	<u>2,765,000</u>	<u>1,255,675</u>	<u>4,020,675</u>

Note 9 – Long-Term Debt (Continued)

Subordinated interagency loans outstanding are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>2006</u>
C92-0001 - Road/Water Projects	4.00%	\$99,081
T1996-038 – North Star	6.00%	217,777
0365103039 – DWSRF JP – State	1.00%	127,666
0365103042 – DWSRF SF - Federal	1.00%	798,605
Total Subordinated Interagency Loans		1,243,129
1% loan fee for Subordinated Interagency Loans		9,783
Sub Total of Interagency Loans		<u>1,252,912</u>
Less Portion Due Within One Year		<u>(78,312)</u>
Total Long-term Portion of Subordinated Interagency Loans Outstanding		<u>\$ 1,174,600</u>

The annual debt service requirements to maturity for subordinated interagency loans are as follows (see note below):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	78,312	26,391	104,703
2008	78,742	24,507	103,249
2009	79,189	22,606	101,795
2010	79,654	20,687	100,341
2011	80,139	18,751	98,890
2012– 2016	378,624	70,855	449,479
2017– 2021	322,239	24,934	347,173
2022 - 2024	156,013	3,120	159,133
Totals	<u>1,252,912</u>	<u>211,851</u>	<u>1,464,763</u>

B. Refunded Debt:

The Port has no refunded debt.

Note 9 – Long-Term Debt (Continued)

C. Leases:

The Port leases certain equipment under non-cancelable operating leases the total cost for such leases, including maintenance and usage charges was \$3,379 for the year ended December 31, 2005. The future minimum lease payments for these leases are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2007	3,431
2008	3,431
2009	3,431
2010	3,431
2011	286
Thereafter	<u>0</u>
Total Future Minimum Lease Payments	<u>\$ 14,010</u>

The Port has no capital leases.

D. Conduit Debt:

The Port has issued no conduit debt.

E. Changes in Long-term Debt:

	12/31/05 Current & Non- Current Beginning Balance	Additions	Reductions	12/31/06 Current & Non-Current Ending Balance	Due Within One Year
G.O. Bonds Payable	\$ 2,855,000	\$ 0	\$ 90,000	\$ 2,765,000	\$ 110,000
Loans Payable net of 1% fees	<u>1,321,027</u>	<u>0</u>	<u>77,808</u>	<u>1,252,912</u>	<u>78,312</u>
Total L.T. Debt	<u>\$ 4,176,027</u>	<u>\$ 0</u>	<u>\$ 167,808</u>	<u>\$ 4,176,027</u>	<u>\$ 188,312</u>

Note 10 – Contingencies and Litigation

The Port has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved, but where, based on available information, management believes it is probable that the Port will have to make payment. In the opinion of management, the Port's insurance policies are adequate to pay all known or pending claims.

The Port participates in a number of federal and state assisted programs. The grants the Port receives under these programs are subject to audit by grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Management believes that such disallowances, if any, will be immaterial.

**Detail of Revenues & Other Sources
For Year Ending December 31, 2006**

BARS Account	Description of Source	Amount
610.00	SF Revenue	1,076,302
620.00	Marina Revenue	62,008
630.00	JP Revenue	427,978
699.10	Interest Revenue	100,760
699.21	Ad Valorem Taxes Levied	506,837
699.50	Unrealized Gain/(Loss) on Investments	2,116
699.90	Other Nonoperating Revenues	986,939
600.00	Total Revenues	2,712,940

Port of Shelton
Detail of Expenses & Other Uses
For Year Ending December 31, 2006

BARS Account	Description of Source	Amount
710.00	SF Expenses	249,650
720.00	Marina Expenses	14,952
730.00	JP Expenses	70,548
767.00	Depreciation Expense	721,041
780.00	General & Administrative Expense	933,423
799.16	Bad Debt Expense	0
799.20	Interest Expense	158,032
799.80	Other Nonoperating Expense	30,205
700.00	Total Expense	2,177,851

**Schedule of Real and Personal Property Taxes (All Tax Supported Funds)
 For Year Ending December 31, 2006**

Fund No.	Fund Name	Taxes Receivable 12/31/2005	Tax Rate \$/1,000	Taxes Levied 2006	Taxes Collected 2006	Tax Adjustment Increases	Tax Adjustment Decreases	Taxes Receivable 12/31/2005
699.21	General Fund	28,724	.038271	503,269	507,862	0	0	24,131

**Schedule of Long-Term Debt
G.O. Debt Schedule
For Year Ending December 31, 2005**

ID No.	Purpose	Date of Original Issue	Date of Maturity	Interest Rate(s)	Amount Originally Issued	Beginning Outstanding Debt 12/31/2005	Amount Issued in Current Year	Amount Redeemed in Current Year
251.11	Tax Exempt Serial Bonds Series A for Buildings & Infrastructure	9/15/2003	3/1/2021	3.15% - 4.86%	1,085,000	1,085,000	0	0
251.11	Taxable Serial Bonds Series B for Buildings	9/15/2003	3/1/2010	1.45% - 4.20%	395,000	210,000	0	70,000
251.11	General Government Deferred Serial Bonds Series C for Buildings & Infrastructure	9/15/2003	3/1/2023	4.55%	350,000	350,000	0	0
264.10	Tax Exempt Serial Bonds for Buildings & Infrastructure	8/15/2005	3/1/2025	2.91% - 3.80%	1,120,000	1,120,000	0	20,000
Total G.O. Debt					2,855,000	2,765,000	0	90,000

**Schedule of Long-Term Debt
Revenue Debt Schedule
For Year Ending December 31, 2006**

I.D. No.	Purpose	Date of Original Issue	Date of Maturity	Interest Rate(s)	Amount Originally Issued	Beginning Outstanding Debt 1/1/06	Amount Issued in Current Year	Amount Redeemed in Current Year	Ending Outstanding Debt
NONE EXCEPT INTERAGENCY DEBT									

See Footnote 9 for more information on interagency loans outstanding.

**Schedule of Limitation of Indebtedness
As of December 31, 2006**

III.	Additional Indebtedness for Airport Capital								
	Improvement Purposes Without a Vote								
	(Legal Limit .125%)								
									1,663,816
	Indebtedness (Liabilities):								
						2,855,000			
						316,859			
	Less: Assets Available								
						(1,848,087)			
	Indebtedness Incurred - Section III								
						1,323,772			
	Margin of Indebtedness Available - Section III								
									340,044
IV.	Additional Indebtedness for Airport Capital								
	Improvement Purposes With a 3/5 Vote								
	(Legal Limit .375%)								
									4,991,447
	Indebtedness (Liabilities):								
						2,855,000			
						316,859			
	Less: Assets Available								
						(1,848,087)			
	Indebtedness Incurred - Section IV								
						1,323,772			
	Margin of Indebtedness Available - Section IV								
									3,667,675
	Total Indebtedness Allowable - Sections I - IV								
	(Legal Limit 1.25%)								
									16,638,156

Port of Shelton
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2006

Federal Agency Name/Pass Through Agency Name	Federal Program Name	CFDA Number	Other Identification Number	From Pass Through Award	From Direct Awards	Total Expenditures
None in 2006						

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the Port's financial statements. The Port uses the accrual method of accounting.

**Schedule of State and Local Financial Assistance
For the Year Ended December 31, 2006**

Grantor/Program Title	Identification Number	Current Year Expenses
WSDOT	GCA-4622	284,712

**Schedule of Labor Relations Consultant(s)
For the Year Ended December 31, 2006**

Has your government engaged labor relations consultants? Yes No

The remainder of this Schedule 19 is not applicable.

Signed _____
George Fox, Port Auditor