

**PORT OF SHELTON**

Shelton, Washington

**ANNUAL REPORT**

December 31, 2007

## TABLE OF CONTENTS

	Page
Cover Sheet for the Washington State Auditor .....	1
Accountant's Compilation Report .....	2
Management Discussion and Analysis .....	3 - 8
Basic Financial Statements	
Statement of Net Assets.....	9
Statement of Revenues, Expenses and Changes in Fund Net Assets.....	10
Statement of Cash Flows .....	11 - 12
Notes to Financial Statements.....	13 - 31
Statutory Reporting to the Washington State Auditor	
Schedule 4 - Detail of Revenues and Other Sources .....	32
Schedule 5 - Detail of Expenses and Other Uses .....	33
Schedule 9 - Long-Term Debt .....	34 - 35
Schedule 10 - Limitation of Indebtedness .....	36 - 38
Schedule 16 - Expenditure of Federal Awards and State/Local Financial Assistance .....	39 - 41
Schedule 19 - Labor Relations Consultants .....	42

**ANNUAL REPORT**

**Port of Shelton**

(Name of Government)

1746

MCAG No.

Submitted pursuant to RCW 43.09.200

to the

STATE AUDITOR'S OFFICE

FOR THE FISCAL YEAR ENDED December 31, 20 07

Certified correct this 29th day of May, 20 08

to the best of my knowledge and belief:

NAME Jan T. Fancher, CPA

TITLE Port Auditor

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See accountant's compilation report.

May 29, 2008

Board of Commissioners  
Port of Shelton  
Shelton, Washington

I have compiled the accompanying statement of net assets of the Port of Shelton as of December 31, 2007, and the related statements of revenues and expenses and changes in fund net assets, and cash flows for the year then ended, in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of the Port of Shelton.

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.

**PORT OF SHELTON**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
For the year ended December 31, 2007

**Management 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, 2007. 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 \$15.0 million as of December 31, 2007 (reported as *net assets*). This represented an increase of \$.6 million from the Port's net assets of \$14.4 million as of December 31, 2006.
- Of the \$15.0 million and \$14.4 million in net assets as of December 31, 2007 and 2006, respectively, \$2.1 million in 2007 and \$2.2 million in 2006 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 \$12.9 million and \$12.2 million in 2007 and 2006, 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 and equipment (including infrastructure assets). This amount was \$16.8 million less related general obligation bonds and loans payable of \$3.9 million in 2007 and \$16.3 million less related general obligation bonds and loans payable of \$4.1 million in 2006. The Port is continually investing in its capital asset base, shown by this \$.8 million increase in the book value of its capital assets over the previous year.

**Overview of the Financial Statements**

This discussion and analysis are 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 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 9 - 12 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.

**PORT OF SHELTON**  
MANAGEMENT DISCUSSION AND ANALYSIS, CONTINUED  
For the year ended December 31, 2007

**Overview of the Financial Statements, Continued**

- *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 nonoperating 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 13 - 31 of this report.

**Financial Analysis**

The Port's total assets exceeded liabilities by \$15.0 million as compared to \$14.4 million at December 31, 2006.

The largest portion of the Port's net assets (87.5% as of December 31, 2007 as compared to 86.2% as of December 31, 2006) 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 24.9% and 27.8% as of December 31, 2007 and 2006, respectively. The Port's debt is decreasing relative to its net assets as a result of repaying a portion of its long-term debt in 2007 and 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.

**PORT OF SHELTON**  
MANAGEMENT DISCUSSION AND ANALYSIS, CONTINUED  
For the year ended December 31, 2007

**Condensed Financial Data**

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

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Current assets	\$ 2,174	\$ 2,184
Capital assets	16,783	16,360
Other noncurrent assets	313	271
Total assets	<u>19,270</u>	<u>18,815</u>
<b>LIABILITIES</b>		
Long-term liabilities outstanding	3,723	3,980
Other liabilities	576	492
Total liabilities	<u>4,299</u>	<u>4,472</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	12,866	12,160
Restricted for asset acquisition	--	--
Unrestricted	2,105	2,183
Total net assets	<u>\$ 14,971</u>	<u>\$ 14,343</u>

**PORT OF SHELTON**  
MANAGEMENT DISCUSSION AND ANALYSIS, CONTINUED  
For the year ended December 31, 2007

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

	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUES</b>		
Airport operations	\$ 1,003	--
Marina operations	159	62
Property lease and rental operations	499	1,504
Other operations	--	10
Total operating revenues	<u>1,661</u>	<u>1,577</u>
<b>NONOPERATING REVENUES</b>		
Investment income	82	101
Property taxes	579	506
Gain on sale of assets	407	--
Operating grants	--	427
Gain on investments	--	2
Other nonoperating revenues	<u>212</u>	<u>35</u>
Total nonoperating revenues	<u>1,280</u>	<u>1,071</u>
Total revenues	<u>2,941</u>	<u>2,648</u>
<b>OPERATING EXPENSES</b>		
General operations	136	181
Maintenance	164	155
General and administrative	1,092	933
Depreciation	<u>812</u>	<u>750</u>
Total operating expenses	<u>2,204</u>	<u>2,019</u>
<b>NONOPERATING EXPENSES</b>		
Interest expense	145	158
Other nonoperating expenses	<u>7</u>	<u>1</u>
Total nonoperating expenses	<u>152</u>	<u>159</u>
Total expenses	<u>2,356</u>	<u>2,178</u>
Income before contributions	585	470
Capital contributions	<u>43</u>	<u>--</u>
Change in net assets	628	470
Net assets as of January 1	<u>14,343</u>	<u>13,873</u>
Net assets as of December 31	\$ <u><u>14,971</u></u>	\$ <u><u>14,343</u></u>

**PORT OF SHELTON**  
MANAGEMENT DISCUSSION AND ANALYSIS, CONTINUED  
For the year ended December 31, 2007

**Overall Analysis of Financial Position and Results of Operations**

2007 activities resulted in a net increase in the Port's net assets of \$.6 million. There were no significant changes in the Port's financial position or results of operations during the year ended December 31, 2007. The increase in net assets included nonoperating revenues from the sale of an easement to the City of Shelton for \$400,000 resulting in increased sewer and reclaimed water service to the area. It also includes the insurance proceeds of \$170,000 for windstorm damage, which was reinvested back into the affected structures.

During 2007, a long-term tenant went out of business, which resulted in the Port having to write-off approximately \$76,000 of past due rents after collecting approximately 30% of the outstanding balance.

The Port continued their Marina expansion efforts including improvements to the boardwalk, pier, parking area, lighting and new fence line.

The Port also made improvements to a rail yard main spur upgrade.

The Port participated in an upgrade of their airport master plan.

*Capital Assets.* The Port's investment in capital assets as of December 31, 2007 amounts to \$16.8 million (net of accumulated depreciation of \$8.4 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 \$1.2 million in capital assets during the year ended December 31, 2007. The Port's remaining commitments at year-end were approximately \$220,000. See Note 4.

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

**PORT OF SHELTON**  
**MANAGEMENT DISCUSSION AND ANALYSIS, CONTINUED**  
For the year ended December 31, 2007

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

		2007
Land	\$	2,648
Buildings		9,497
Utility systems		4,176
Roads, parking areas and signs		2,827
Docks and marina equipment		202
Railroads		458
Airport runways, taxiways and related		3,984
Trucks and automobiles		148
Machinery and equipment		577
Furniture and fixtures		72
Construction in progress		547
Total capital assets before		
accumulated depreciation		25,136
Less accumulated depreciation		(8,354)
 Total capital assets, net	 \$	 <u><u>16,782</u></u>

*Bond Debt.* At December 31, 2007, 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, 2007.

Additional information on the Port's general obligation bonds and loans payable obligations is presented in Note 9 to the financial statements.

**PORT OF SHELTON**  
**STATEMENT OF NET ASSETS**  
December 31, 2007

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 251,533
Investments	1,694,695
Taxes receivable, net	25,813
Accounts receivable	50,704
Interest receivable	7,700
Deferred rent receivable	53,875
Due from other governments	43,357
Prepaid expenses	<u>46,348</u>
 Total current assets	 <u>2,174,025</u>

**NONCURRENT ASSETS**

Capital assets not being depreciated	
Land	2,648,981
Construction in progress	<u>546,962</u>
	3,195,943
 Capital assets being depreciated	
Property, plant and equipment	<u>21,940,307</u>
	25,136,250
 Less accumulated depreciation	 <u>(8,353,751)</u>
 Total net capital assets	 <u>16,782,499</u>

**OTHER NONCURRENT ASSETS**

Intangible assets, net	185,343
Deferred charges	<u>128,070</u>
 Total other noncurrent assets	 <u>313,413</u>
 Total assets	 <u>19,269,937</u>

## LIABILITIES

### CURRENT LIABILITIES

Accounts payable	213,648
Accrued compensated absences	14,946
Sales tax payable	2,323
Retainage payable	17,594
Accrued interest payable	50,040
Current portion of long-term obligations	193,742
Customer deposits	<u>83,753</u>

Total current liabilities 576,046

### NONCURRENT LIABILITIES

General obligation bonds, net	2,561,480
Other noncurrent liabilities	<u>1,161,173</u>

Total noncurrent liabilities 3,722,653

Total liabilities 4,298,699

### NET ASSETS

Invested in capital assets, net of related debt	12,866,103
Restricted for asset acquisition	--
Unrestricted	<u>2,105,135</u>

**TOTAL NET ASSETS** \$ 14,971,238

See accountant's compilation report.  
The accompanying notes are an integral part of these financial statements.

**PORT OF SHELTON**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
For the year ended December 31, 2007

**OPERATING REVENUES**

Airport operations	\$ 1,003,450
Marina operations	158,721
Property lease/rental operations	<u>499,327</u>
Total operating revenues	<u>1,661,498</u>

**OPERATING EXPENSES**

General operations	136,445
Maintenance	164,158
General and administrative	1,092,408
Depreciation	<u>811,515</u>
Total operating expenses	<u>2,204,526</u>

Loss from operations	<u>(543,028)</u>
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**NONOPERATING REVENUES (EXPENSES)**

Investment income	82,643
Taxes levied for general purposes	579,160
Miscellaneous taxes	25,926
Gain on disposition of assets	406,896
Gain on investments	1,739
Other nonoperating revenues	185,851
Election expense	(3,169)
Interest expense	(144,939)
Other nonoperating expenses	<u>(6,417)</u>

Total nonoperating revenues (expenses)	<u>1,127,690</u>
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Income before contributions	584,662
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Capital contributions	<u>43,357</u>
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Increase in net assets	628,019
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Net assets as of January 1	<u>14,343,219</u>
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Net assets as of December 31	\$ <u><u>14,971,238</u></u>
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**PORT OF SHELTON**  
**STATEMENT OF CASH FLOWS**  
For the year ended December 31, 2007

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from customers and others	\$ 1,648,621
Cash payments to suppliers for goods and services	(779,271)
Cash payments to employees and on their behalf	<u>(602,368)</u>
Net cash provided by operating activities	<u>266,982</u>

**CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES**

Property taxes	577,478
Nonoperating revenues	211,777
Nonoperating expenses	<u>(9,586)</u>
Net cash provided by non-capital financing activities	<u>779,669</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchase and construction of capital assets	(1,276,144)
Proceeds from sale of capital assets	406,896
Repayment of long-term bond debt	(179,595)
Interest and issuance costs on bond debt	<u>(151,444)</u>
Net cash used by capital and related financing activities	<u>(1,200,287)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from sale of investments, net	209,526
Interest and dividends received	<u>74,943</u>
Net cash used by investing activities	<u>284,469</u>

Net increase in cash and cash equivalents	130,833
Cash and cash equivalents as of January 1	<u>120,700</u>
Cash and cash equivalents as of December 31	<u>\$ 251,533</u>

**PORT OF SHELTON**  
**STATEMENT OF CASH FLOWS, CONTINUED**  
For the year ended December 31, 2007

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

Loss from operations	\$ <u>(543,028)</u>
Adjustments to reconcile loss from operations to net cash provided by operating activities:	
Depreciation and amortization	811,515
Change in accounts receivable	(12,877)
Change in other current assets	(1,606)
Change in accounts payable	1,267
Change in other current liabilities	<u>11,711</u>
Total adjustments	<u>810,010</u>
Net cash provided by operating activities	\$ <u><u>266,982</u></u>

See accountant's compilation report.  
The accompanying notes are an integral part of these financial statements.  
(12)

**PORT OF SHELTON**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2007

**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 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 apply Financial Accounting Standards Board (FASB) guidance issued after November 20, 1989 to the extent that it does not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The Port accounts for its operations on a flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

In June 1999, GASB approved Statement 34, *Basic Financial Statements-and Management Discussion and Analysis-for State and Local Governments*. This and consecutive statements are reflected in the accompanying financial statements (including notes to financial statements).

**Reporting entity**

The Port is in Mason County, Washington and comprises territory less than the entire county. 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. The Port may acquire and improve land for sale or lease for industrial or commercial purposes. An elected three-member board governs the Port. The Port is a primary government and does not have any component units.

**Basis of accounting and reporting**

The accounting records of the Port are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The Port uses the *Budgeting, Accounting and Reporting System for Classified Port Districts (BARS)* in the State of Washington.

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statements of net assets. Their reported fund equity (total net assets) is segregated into invested in capital assets, net of related debt, restricted and unrestricted net assets. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net total assets. The Port discloses changes in cash flows by a separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

See accountant's compilation report.

**PORT OF SHELTON**  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:**

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 noncurrent) are included on the statements of net assets.

The Port distinguishes between operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Port's principal ongoing operations. The principal operating revenues of the Port are charges to customers for the use of Port facilities, including marina, airport, rail, utilities and property rentals. Operating expenses for the Port include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenues include ad valorem tax levy revenues, interest income, grant reimbursements and other revenues. Nonoperating expenses include interest expense, election expense and other expenses.

**Assets, liabilities and equities**

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, 2007 the Port had \$1,694,695 in short-term residual investments of surplus cash invested with financial institutions. 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, at December 31, 2007, the Port had cash of \$247,079, including a deposit in transit of \$1,948 at Heritage Bank and \$4,454 at the Mason County Treasurer, for total cash and cash equivalents of \$251,533.

Investments - See Note 2.

Investments are stated at fair value. Interest on debt securities held as investments is recognized in nonoperating revenues when earned. Changes in the fair value of investments are included in nonoperating revenues (for unrealized gains) or nonoperating expense (for unrealized losses).

**PORT OF SHELTON**  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:**

Receivables

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.

Customer accounts receivable consists 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, 2007, the Port's reserve was \$30,000. The amount of accounts receivable shown in the financial statements is net of this reserve amount. The Port accrues this reserve amount as 1.00% of sales.

Deferred rent receivable consists of amounts that are being paid on a pro-rata basis throughout the current year under agreed upon terms. All applicable leasehold taxes associated with the deferral have been paid previously.

Interest receivable consists of interest earned on investments.

Amounts due from other governments

These accounts include amounts due from other governments for grants. See Note 11.

Concentrations

For the year ended December 31, 2007, two customers accounted for 25.23% of operating revenue. No other customers individually exceeded 10% of operating revenue in 2007.

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.

Fair value of financial instruments

The Port's financial instruments consist of cash and cash equivalents, investments, taxes receivable, accounts receivable, interest receivable, deferred rent receivable, accounts payable, general obligation bonds payable and loans payable for which their current carrying amounts approximate fair market value.

See accountant's compilation report.

**PORT OF SHELTON**  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:**

Inventories

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

Capital assets and depreciation - See Note 4.

Intangible assets, net

Intangible assets, net represents the cost of long-lived organizational master plans, net of accumulated amortization. If construction results, the related costs become part of the cost of the asset. If the project is abandoned, related costs are charged to expense.

Deferred charges

Deferred charges represent preliminary surveys and investigations.

Compensated absences

Compensated absences are absences for which employees will be paid, such as vacation leave. The Port records unpaid vacation leave for compensated absences as an expense and liability when incurred.

Vacation pay, which may be accumulated up to eighty hours, is payable upon separation, retirement or death. The accrued compensated absences balance at December 31, 2007 was \$14,946.

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.

Advertising

The Port expenses its advertising costs as they are incurred. Advertising expense for the year ended December 31, 2007 totaled \$15,440.

Long-term debt - See Note 9.

Original issue premium and discount - See Note 9.

**PORT OF SHELTON**  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:**

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.

Operating and nonoperating 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 nonoperating revenues. Interest on debt, costs of elections and other miscellaneous costs are reported as nonoperating expenses.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - DEPOSITS AND INVESTMENTS:**

**Deposits**

As of December 31, 2007, the carrying amount of the Port's cash deposits with financial institutions was \$245,131 plus a deposit in transit of \$1,948, and \$4,454 temporarily held at the Mason County Treasurer's Office, for a total carrying value of \$251,533. The total carrying amount of investments at December 31, 2007 was \$1,694,695.

See accountant's compilation report.

**PORT OF SHELTON**  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2007

**NOTE 2 - DEPOSITS AND INVESTMENTS, CONTINUED:**

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 reported a realized gain of \$1,739 from the sale of investments due to an increase in fair market value of investments for the year ended December 31, 2007.

Category	December 31, 2007
Category 1	\$ 1,694,695

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.

**PORT OF SHELTON**  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2007

**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 10<sup>th</sup> 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.

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:

- a. 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.
- b. The Port may voluntarily levy taxes below the legal limit.
- c. 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 2007 and 2006 was \$.42146 and \$.37810 per \$1,000 on a total assessed valuation of \$1,391,984,405 and \$1,331,052,444 for total regular levies of \$586,669 and \$503,269, respectively.

**PORT OF SHELTON**  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2007

**NOTE 4 - CAPITAL ASSETS AND DEPRECIATION:**

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 of the amount owed by the tenant to the Port or the estimated fair market value of the capital asset received.

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 equity interest in these assets resulting in the assets reverting back to the agency 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, 2007 the Port's eligible capital interest costs were not considered to be material and, therefore, were 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.

Impaired capital assets

The Port incurred a natural disaster loss due to a significant wind storm at the end of 2006 and applied for and received an insurance reimbursement of \$168,966 in 2007. In evaluating any potential impairment loss, the Port utilized the restoration cost approach, which resulted in the determination that no impairment loss occurred. The insurance proceeds are recorded in nonoperating income.

See accountant's compilation report.

**PORT OF SHELTON**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
December 31, 2007

**NOTE 4 - CAPITAL ASSETS AND DEPRECIATION, CONTINUED:**

Sale of easement

During 2007, the Port granted an easement to the City of Shelton for the design, construction, installation, maintenance and repair of gravity main utility lines across Port property for \$400,293, which allows expanded sewer and reclaimed water service to reach various businesses. The proceeds are recorded in nonoperating income.

Capital assets activity for the year ended December 31, 2007 was as follows:

<u>Asset Category</u>	<u>Ending Balance 12/31/06</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 12/31/07</u>
Capital assets not being depreciated				
Land	\$ 1,841,473	\$ 807,508	\$ --	\$ 2,648,981
Construction in progress	<u>1,412,367</u>	<u>1,089,450</u>	<u>1,954,855</u>	<u>546,962</u>
<b>Total capital assets not being depreciated</b>	<u>3,253,840</u>	<u>1,896,958</u>	<u>1,954,855</u>	<u>3,195,943</u>
Capital assets being depreciated				
Buildings	8,970,355	526,200	--	9,496,555
Utility systems	4,118,873	57,516	--	4,176,389
Roads, parking areas and signs	2,760,240	66,361	--	2,826,601
Docks and marina equipment	200,143	1,980	--	202,123
Railroads	393,872	64,103	--	457,975
Airport runways, taxiways and related	3,683,517	300,805	--	3,984,322
Trucks and automobiles	131,819	52,996	37,095	147,720
Machinery and equipment	392,226	188,218	3,792	576,652
Furniture and fixtures	<u>61,361</u>	<u>10,609</u>	<u>--</u>	<u>71,970</u>
<b>Total capital assets being depreciated</b>	<u>20,712,406</u>	<u>1,268,787</u>	<u>40,887</u>	<u>21,940,307</u>
Less accumulated depreciation for				
Building	(2,189,018)	217,215	--	(2,406,233)
Utility systems	(1,527,736)	290,459	--	(1,818,196)
Roads, parking areas and signs	(968,778)	125,291	--	(1,094,069)
Docks and marina equipment	(200,143)	--	--	(200,143)
Railroads	(225,701)	15,510	--	(241,211)
Airport runways, taxiways and related	(2,074,771)	70,421	--	(2,145,192)
Trucks and automobiles	(111,517)	14,937	37,095	(89,358)
Machinery and equipment	(254,169)	49,581	3,792	(299,958)
Furniture and fixtures	<u>(53,762)</u>	<u>5,629</u>	<u>--</u>	<u>(59,391)</u>
<b>Total accumulated depreciation</b>	<u>(7,605,595)</u>	<u>789,042</u>	<u>40,887</u>	<u>(8,353,751)</u>
<b>Total capital assets being depreciated, net</b>	<u>13,106,811</u>	<u>479,745</u>	<u>--</u>	<u>13,586,556</u>
<b>Total capital assets, net</b>	<u>\$ 16,360,651</u>	<u>\$ 2,376,703</u>	<u>\$ 1,954,855</u>	<u>\$ 16,782,499</u>

See accountant's compilation report.

**PORT OF SHELTON**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
December 31, 2007

**NOTE 4 - CAPITAL ASSETS AND DEPRECIATION, CONTINUED:**

Construction Commitments

The Port of Shelton has active construction projects as of December 31, 2007. The projects include:

Property purchase, routine capital improvements, Marina bulkhead, sewer, pier railing, floating restroom, building renovation and paving.

At year-end the Port's commitments with contractors are as follows:

<u>Project</u>	<u>Spent To-Date</u>	<u>Remaining Commitment</u>
Property purchase	\$ 87,412	\$ 4,200
Routine capital	25,649	996
Marina bulkhead	54,990	27,665
Marina sewer	3,130	--
Pier railing	48,424	20,128
Floating restroom	1,221	99,488
Building renovation	252,262	67,632
Paving	73,607	--
Other	267	--
	<u>\$ 546,962</u>	<u>\$ 220,109</u>

**NOTE 5 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

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

**PORT OF SHELTON**  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2007

**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 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 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 defined benefit plan with a defined contribution component. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS 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 irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. 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.

See accountant's compilation report.

**PORT OF SHELTON**  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2007

**NOTE 6 - PENSION PLAN, CONTINUED:**

Plan 1 members are vested after the completion of 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 benefit is two 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. Plan 1 retirements from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle Consumer Price Index), capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

Plan 2 members are vested after the completion of 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 two 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. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at three 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 one 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. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003.

Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. 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 three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

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.

See accountant's compilation report.

**PORT OF SHELTON**  
 NOTES TO FINANCIAL STATEMENTS, CONTINUED  
 December 31, 2007

**NOTE 6 - PENSION PLAN, CONTINUED:**

There are 1,188 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2006:

Retirees and Beneficiaries Receiving Benefits	\$ 70,201
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	25,610
Active Plan Members Vested	105,215
Active Plan Members Non-Vested	<u>49,812</u>
Total	\$ 250,838

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The 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, 2007 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer *	6.13%**	6.13%**	6.13% ***
Employee	6.00%****	4.15%****	*****

\* The employer rates include the employer administrative expense fee currently set at 0.16%.

\*\* The employer rate for state elected officials is 9.12% for Plan 1 and 6.13% for Plan 2 and Plan 3.

\*\*\* Plan 3 defined benefit portion only.

\*\*\*\* The employee rate for state elected officials is 7.50% for Plan 1 and 4.15% for Plan 2.

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

See accountant's compilation report.

**PORT OF SHELTON**  
 NOTES TO FINANCIAL STATEMENTS, CONTINUED  
 December 31, 2007

**NOTE 6 - PENSION PLAN, CONTINUED:**

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 1	PERS Plan 2	PERS Plan 3
2007	\$ 0	\$ 32,866	\$ 0
2006	\$ 0	\$ 15,446	\$ 0
2005	\$ 0	\$ 8,374	\$ 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 counties and two 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 health districts, port districts, public utility districts, water districts, sewer districts, irrigation districts, reclamation districts, diking districts, drainage districts, flood control districts, fire protection districts, mosquito control districts, weed districts, conservation districts, library districts, regional mental health support networks, cemetery districts, park and recreation districts, air pollution districts, public development authorities, public facility districts, metropolitan municipal corporations, and other political subdivisions, governmental subdivisions, municipal corporations and quasi-municipal corporations.

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 \$100 million for all members. The Pool offers employee dishonesty coverage up to a liability limit of \$500,000.

See accountant's compilation report.

**PORT OF SHELTON**  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2007

**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 members to continue membership for a period of not less than one year and must give notice 60 days before terminating participation. The Intergovernmental Contract is automatically renewed after the initial one full fiscal year commitment. 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 Intergovernmental Contract.

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.

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:**

Long-term debt

The Port issues general obligation bonds to finance the acquisition and construction of capital assets. Unamortized debt issue costs are recorded as deferred charges and the bonds are displayed net of premium or discount. Annual interest expense is decreased by amortization of debt premium and increased by amortization of debt issue costs and discount. 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.

See accountant's compilation report.

**PORT OF SHELTON**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
December 31, 2007

**NOTE 9 - LONG-TERM DEBT, CONTINUED:**

General obligation bonds currently outstanding are as follows:

<u>Description</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>2007</u>
Tax Exempt G.O. Bonds				
2005 General Obligation Bonds	\$1,120,000	2.91% - 3.80%	2025	\$ 1,060,000
2003 Series A Serial Bonds	\$1,085,000	3.15% - 4.86%	2023	1,085,000
2003 Series B Serial Bonds	\$395,000	1.45% - 4.20%	2023	160,000
2003 Series C Deferred Serial Bonds	\$350,000	4.55%	2023	<u>350,000</u>
Total general obligation bonds outstanding				2,655,000
Less current portion				<u>(115,000)</u>
				2,540,000
Unamortized bond discount and premium, net				<u>21,480</u>
Total long-term general obligation bonds, net				<u>\$ 2,561,480</u>

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

Year ending December 31	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 227,765	\$ 115,000	\$ 112,765
2009	223,684	115,000	108,684
2010	229,478	125,000	104,478
2011	225,114	125,000	100,114
2012	225,455	130,000	95,455
2013 - 2017	1,136,832	745,000	391,832
2018 - 2022	1,124,268	920,000	204,268
2023 - 2025	401,696	380,000	21,696
Thereafter	<u>--</u>	<u>--</u>	<u>--</u>
	<u>\$ 3,794,292</u>	<u>\$ 2,655,000</u>	<u>\$ 1,139,292</u>

See accountant's compilation report.

**PORT OF SHELTON**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
December 31, 2007

**NOTE 9 - LONG-TERM DEBT, CONTINUED:**

Subordinated interagency loans outstanding are as follows:

<u>Description</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>2007</u>
CERB-1992 - Road/Water Projects	\$200,000	4.00%	2014	\$ 88,328
CERB-1996 - North Star	\$280,000	6.00%	2020	202,222
DWSRF JP - State	\$136,182	1.00%	2024	121,847
DWSRF SF - Federal	\$851,875	1.00%	2024	762,204
CERB-2006 - Belco Waterline	\$65,314		2016	<u>65,314</u>
Total subordinated interagency loans				1,239,915
Less current portion				<u>(78,742)</u>
Total long-term portion of subordinated interagency loans outstanding				<u>\$ 1,161,173</u>

The annual debt service requirements to maturity for subordinated interagency loans are as follows:

Year ending December 31:	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 103,249	\$ 78,742	\$ 24,507
2009	101,795	79,189	22,606
2010	100,342	79,654	20,688
2011	143,066	121,703	21,363
2012	103,402	86,370	17,031
2013 - 2017	439,619	383,570	56,049
2018 - 2022	325,282	306,682	18,601
2023 - 2024	105,565	104,005	1,560
Thereafter	<u>--</u>	<u>--</u>	<u>--</u>
	<u>\$ 1,422,320</u>	<u>\$ 1,239,915</u>	<u>\$ 182,405</u>

Refunded debt

The Port has no refunded debt.

See accountant's compilation report.

**PORT OF SHELTON**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
December 31, 2007

**NOTE 9 - LONG-TERM DEBT, CONTINUED:**

Leases

The Port leases certain equipment under non-cancelable operating leases. The total cost for such leases, including maintenance and usage charges was \$4,473 for the year ended December 31, 2007. The future minimum lease payments for these leases are as follows:

<u>Year</u>	<u>Total</u>
2008	\$ 3,431
2009	3,431
2010	3,431
2011	286
2012	<u>—</u>
	10,579
Thereafter	<u>—</u>
Total	\$ <u><u>10,579</u></u>

The Port has no capital leases.

Conduit debt

The Port has issued no conduit debt.

Changes in long-term liabilities

	<u>Beginning Balance 1/1/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Less Current Portion</u>	<u>Ending Balance 12/31/07</u>
G.O. bonds	\$ 2,765,000	\$ --	\$ 110,000	\$ 115,000	\$ 2,540,000
Less discounts/add premiums, net	<u>22,546</u>	<u>--</u>	<u>1,066</u>	<u>--</u>	<u>21,480</u>
Total G.O. bonds payable	2,787,546	--	111,066	115,000	2,561,480
Loans payable	<u>1,376,416</u>	<u>--</u>	<u>136,500</u>	<u>78,742</u>	<u>1,161,174</u>
Total long-term liabilities	\$ <u><u>4,163,962</u></u>	\$ <u><u>--</u></u>	\$ <u><u>247,566</u></u>	\$ <u><u>193,742</u></u>	\$ <u><u>3,722,654</u></u>

See accountant's compilation report.

**PORT OF SHELTON**  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2007

**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.

**NOTE 11 - CAPITAL CONTRIBUTIONS - GRANTS:**

For 2007, the Port has grants from the Federal Aviation Administration and the Washington State Department of Transportation Aviation Division to conduct an aviation master plan update. The Port is also a recipient of a grant from the Washington State Parks and Recreation Commission, which is a federal flow-through grant from Federal Fish and Wildlife under the Clean Vessel Act for a boat sewage disposal facility. Capital contributions consist of the amounts owing to the Port for reimbursement at December 31, 2007 for these grants.

**NOTE 12 - PRIOR PERIOD ADJUSTMENT:**

The Port has restated their beginning balances at January 1, 2007 to reclassify the reporting of a CERB loan of \$65,314. The beginning balance of noncurrent liabilities has been increased to reflect the loan and the beginning balance of net assets has been decreased to reflect the reclassification of the loan proceeds out of 2006 nonoperating revenue. During 2006, the Port received proceeds from CERB that included both grant and loan funds. The Port is in the process of restating their 2006 financial statements to reflect this change.

**NOTE 13 - SUBSEQUENT EVENTS:**

Subsequent to year-end, due to the current national housing market conditions, the Port's general obligation bond insurer's ratings were downgraded by one reporting agency.

In 2008, the Port entered into an interagency agreement with the Mason Conservation District to participate with them in carrying out a Salmon Safe Marina grant. The grant provides for equipment, native plants and educational outreach.

In 2008, the Port declared certain real property surplus that was no longer needed for Port district purposes and authorized the sale of such property. An appraisal is in process.

See accountant's compilation report.

**DETAIL OF REVENUES AND OTHER SOURCES**

**For Year Ended December 31, 2007**

BARS Revenue Account No.	Description	Actual Revenue
611.00	Airport - User Charges	\$ 139,091
615.00/616.00	Airport - Real Property Rentals - Facilities	863,042
619.00	Other Airport Revenues	1,317
621.00	Marina - User Charges	158,721
641.00	Industrial Park - User Charges	33,114
644.00	Industrial Park - Real Property Rentals - Land	393,663
645.00	Industrial Park - Real Property Rentals - Facilities	24,000
649.00	Other Industrial Park Revenues	48,550
651.00	Capital Contributions	43,357
699.10	Interest Income	82,643
699.20	Ad Valorem Taxes	579,160
699.30	Miscellaneous Taxes	25,926
699.40	Gain on Sale of Assets	406,896
699.60	Gain on Investments	1,739
699.90	Other Revenues	185,851
	TOTAL REVENUES	\$ 2,987,070

See accountant's compilation report.

**DETAIL OF EXPENSES AND OTHER USES**

**For Year Ended December 31, 2007**

BARS Expense Account No.	Description	Actual Expenses
711.00	Airport Operations	\$ 80,702
713.00	Airport Maintenance	120,613
721.00	Marina Operations	30,378
723.00	Marina Maintenance	21,836
741.00	Industrial Park Operations	25,365
743.00	Industrial Park Maintenance	21,709
781.00	General and Administrative Operating Expenses	1,028,296
783.00	General and Administrative Maintenance Expenses	64,112
787.00	Depreciation Expense	811,515
799.91	Interest Expense	144,939
799.92	Election Expense	3,169
799.93	Other Nonoperating Expenses	6,417
	<b>TOTAL EXPENSES</b>	<b>\$ 2,359,051</b>

See accountant's compilation report.