Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Port of Shelton

For the period January 1, 2025 through December 31, 2025

Published September 21, 2026

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Office of the Washington State Auditor
Pat McCarthy

September 21, 2026

Board of Commissioners
Port of Shelton
Shelton, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Port of Shelton's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the Port's financial activities and condition.

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Port of Shelton
January 1, 2025 through December 31, 2025

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of the Port of Shelton are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the Port's financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Port.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Port's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

ALN	Program or Cluster Title
20.106	Airport Improvement Program, Infrastructure Investment and Jobs Act Programs, and COVID-19 Airports Programs

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was $1,000,000.

The Port did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Port of Shelton
January 1, 2025 through December 31, 2025

Board of Commissioners
Port of Shelton
Shelton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the Port of Shelton, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Port's financial statements, and have issued our report thereon dated September 15, 2026.

We issued an unmodified opinion on the fair presentation of the Port's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the Port using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Port's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Port's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

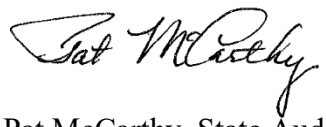
REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Port's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy, State Auditor

Olympia, WA

September 15, 2026

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

Port of Shelton
January 1, 2025 through December 31, 2025

Board of Commissioners
Port of Shelton
Shelton, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of the Port of Shelton, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Port's major federal programs for the year ended December 31, 2025. The Port's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Port and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Port's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Port's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Port's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Port's compliance with the requirements of each major federal program as a whole.

Performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Port's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the Port's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control over compliance. Accordingly, no such opinion is expressed; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy, State Auditor

Olympia, WA

September 15, 2026

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Port of Shelton
January 1, 2025 through December 31, 2025

Board of Commissioners
Port of Shelton
Shelton, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the Port of Shelton, as of and for the year ended December 31, 2025, and the related notes to the financial statements, as listed in the financial section of our report.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the Port has prepared these financial statements to meet the financial reporting requirements of state law and accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the Port of Shelton, and its changes in cash and investments, for the year ended December 31, 2025, on the basis of accounting described in Note 1.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion, they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Port of Shelton, as of December 31, 2025, or the changes in financial position or cash flows thereof for the year then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Port, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. As described in Note 1 of the financial statements, the financial statements are prepared by the Port in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the BARS Manual described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Liabilities is

presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2026 on our consideration of the Port's internal control over financial reporting and on the tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

Pat McCarthy, State Auditor

Olympia, WA

September 15, 2026

FINANCIAL SECTION

Port of Shelton
January 1, 2025 through December 31, 2025

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2025
Notes to Financial Statements – 2025

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2025
Schedule of Expenditures of Federal Awards – 2025
Notes to the Schedule of Expenditures of Federal Awards – 2025

Port of Shelton
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2025

Beginning Cash and Investments		
308	Beginning Cash and Investments	7,460,549
388 / 588	Net Adjustments	-
Revenues		
310	Taxes	883,591
320	Licenses and Permits	-
330	Intergovernmental Revenues	4,627,128
340	Charges for Goods and Services	2,613,593
350	Fines and Penalties	-
360	Miscellaneous Revenues	295,256
Total Revenues:		8,419,568
Expenditures		
510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	2,560,920
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		2,560,920
Excess (Deficiency) Revenues over Expenditures:		5,858,648
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	17,647
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	2,460,441
Total Other Increases in Fund Resources:		2,478,088
Other Decreases in Fund Resources		
594-595	Capital Expenditures	5,021,630
591-593, 599	Debt Service	208,827
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	252,159
Total Other Decreases in Fund Resources:		5,482,616
Increase (Decrease) in Cash and Investments:		**2,854,120**
Ending Cash and Investments		
50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	10,314,669
50891	Unassigned	-
Total Ending Cash and Investments		**10,314,669**

The accompanying notes are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Port of Shelton (Port) was incorporated in 1948 and operates under the laws of the State of Washington applicable to a Port district.

Reporting Entity

The Port is located in Mason County, Washington and its territory covers less than the entire county. The Port is a special purpose local government that provides industrial and commercial property rentals and airport facilities to the general public and is supported by user charges and taxes from a property tax levy. The Port may acquire and improve land for sale or lease for industrial or commercial purposes. The Port is governed by an elected three-member board.

Basis of Accounting and Reporting

The Port reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from Generally Accepted Accounting Principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed but are not included in the financial statement.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statement as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances for proprietary funds are presented using classifications that are different from the ending net position classifications in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. The Port has one fund. The following fund type is used:

PROPRIETARY FUND TYPE

Enterprise Fund
This fund accounts for operations that provide goods or services to the general public and are supported primarily through user charges.

B. Basis of Accounting and Measurement Focus

The Port's financial statement is prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

C. Cash and Investments

It is the Port's policy to invest all temporary cash surpluses. The interest on these investments is recorded in the Port's General Fund. See Note 2 - *Deposits and Investments*.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

D. Capital Assets

Capital assets are assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one (1) year. Capital assets and inventory are recorded as capital expenditures when purchased. See Note 10 - *Other Disclosures, Capital Assets and Awards* and *Subsequent Events.*

E. Compensated Absences

Compensated absences are leave for which employees may receive cash payments when the leave is used or expected to be used for time off, other cash payments like unused leave paid upon termination of employment, non-cash settlements like conversion to defined benefit post-employment benefits, and associated employer required payroll taxes. Termination of employment is the end of an employee's active service no matter the reason and includes estimated leave paid at separation, retirement, or death. Payments are recognized as expenditures when paid.

The Port's paid time off plan (PTO) may be accumulated up to 320 hours for regular full-time employees and 160 hours for regular part-time employees at year-end. Upon completion of twelve (12) months or more of continuous employment, PTO is payable upon separation or retirement for a maximum of 320 hours for regular full-time employees and 160 hours for regular part-time employees. PTO is forfeited for employment less than twelve (12) months. Grandfathered Sick Leave is sick leave that employees accumulated to December 31, 2024, after which no longer accrues. Grandfathered Sick Leave is forfeited upon separation of employment, either voluntarily or involuntarily. See Note 4 – *Long-Term Liabilities,* Note 10 - *Other Disclosures, Subsequent Events,* and *Schedule of Liabilities* (Schedule 09).

F. Liabilities

See Note 4 - *Long-Term Liabilities,* Note 5 – *Leases,* Note 6 – *Other Post-Employment Benefits (OPEB),* Note 7 – *Pension Plans* and *Schedule of Liabilities (Schedule 09)*.

G. Leases

Leases are reported as liabilities if the total payments over the life of the lease is more than $5,000. See Note 5 – *Leases* and *Schedule of Liabilities (Schedule 09)*.

H. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by action of the Board of Commissioners. When expenditures that meet restrictions are incurred, the Port intends to use the most restricted resources first.

Restrictions and Commitments of Ending Cash and Investments consist of $0, respectively.

NOTE 2 - DEPOSITS AND INVESTMENTS:

Investments are reported at face value, unless indicated otherwise. Deposits and investments by type at December 31, 2025 are as follows:

Type of Deposit or Investment	Port's Own Deposits and Investments
Bank Deposits	$ 1,147,365
Heritage Bank Public Now Invest	599,825
Local Government Investment Pool (LGIP)	8,567,479
Total	**$ 10,314,669**

Investments in the State Local Government Investment Pool (LGIP)

The Port is a voluntary participant in the LGIP, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Port would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The Port's deposits are mostly covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All bank deposits and investments are insured, registered or held by the Port or its agent in the government's name.

Treasury Function

On May 15, 2002, the Port Commission passed Resolution 02-04, appointing one of its members to be the Port Treasurer. The Port Treasurer maintains the accounts of the Port at Heritage Bank in Shelton, Washington, a certified Public Depository Institution and the LGIP in Olympia, Washington, a State of Washington qualified external investment pool, managed and operated by the Washington State Treasurer. The Port invests its surplus cash according to an investment policy adopted by Resolution of the Port Commission.

NOTE 3 - PROPERTY TAX:

The Mason County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed to the Port after the end of each month.

Property Tax Calendar	
January 1	Tax is levied and becomes an enforceable lien against the properties.
February 14	Tax bills are mailed
April 30	First of two equal installment payments are 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 tax revenues are recognized when cash is received by Mason County on behalf of the Port. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Port's regular levy for the year 2025 was $0.1992540 per $1,000 on an assessed valuation of $4,422,379,846 for a total regular levy of $881,177.

Washington State Constitution and Washington State law, RCW 84.55.010, limit the levy rate.

NOTE 4 - LONG-TERM LIABILITIES:

The following table provides details of the outstanding debt of the Port and summarizes the Port's debt transactions for year ended December 31, 2025.

The debt service requirements for subordinated interagency loans and a promissory note are as follows:

Year ending December 31	Principal	Interest	Total
2026	122,619	32,366	154,985
2027	124,956	30,029	154,985
2028	127,344	27,641	154,985
2029	129,783	25,202	154,985
2030	132,276	22,708	154,984
2031-2035	537.373	83,136	620,509
2036-2040	473,533	45,547	519,080
2041-2044	338,787	12,799	351,586
Totals	$ 1,986,671	$ 279,428	$ 2,266,099

Assets Pledged as Collateral for Debt

The following debt is secured by assets that are pledged as collateral:

Debt:	Asset:
Promissory Note	130 W Corporate Road, Shelton WA - Land and Buildings

Compensated Absences

During the year ended December 31, 2025, the following changes occurred in compensated absences:

	Beginning Balance 01/01/2025	Additions	Reductions	Ending Balance 12/31/2025
Compensated Absences*	$ 182,459	$ 17,318		$ 199,777

*additions and reductions are reported as a net change

See *Schedule of Liabilities* (Schedule 09).

NOTE 5 - LEASES:

The Port's adoption of the cash basis BARS manual requirements for leases resulted in lease liabilities reported on the *Schedule of Liabilities* (Schedule 09).

The Port leases a copier for $399 per month under a non-cancelable five (5) year lease agreement. The lease payments began in May 2022 and ends in April 2027. At the end of the lease, the Port may purchase the equipment for fair market value.

The Port leases telephone equipment for $207 per month under a non-cancelable five (5) year lease agreement. The lease payments began in October 2022 and ends in September 2027. At the end of the lease the Port intends to return the equipment.

The total amount paid for leases in 2025 was $7,272. As of December 31, 2025, the future lease payments are as follows:

Year Ended December 31	Total
2026	$ 7,272
2027	$ 3,459
Total	$ 10,731

NOTE 6 - OTHER POST-EMPLOYMENT BENEFITS (OPEB):

The Port is a participating employer in the state's Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical, dental, and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides OPEB benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately.

Fiscal Year 2025		
Number of Active Plan Members		12
Number of Retired Plan Members		3
Contributions Made	$	11,493
*Total OPEB Liability	$	328,392

**Measured using the alternative measurement method.*

NOTE 7 - PENSION PLANS:

State Sponsored Pension Plans

Substantially all Port full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS), a statewide retirement system administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information for each plan.

The DRS ACFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2025 (*the measurement date of the plans*), the Port's proportionate share of the collective net pension liabilities (assets), was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	$ 20,410	0.003702%	$ 43,646
PERS 2/3	$ 50,870	0.004793%	$ (182,909)

Only the net pension liabilities are reported on the *Schedule of Liabilities* (Schedule 09).

NOTE 8 - RISK MANAGEMENT:

The Port is a member of Enduris Washington ("Enduris" or "the Pool") under an interlocal governmental agreement. Enduris was established as a Washington Risk Pool under RCW 48.62.031, allowing local government entities to self-insure risks independently or collectively, purchase insurance or reinsurance together, and contract for services like risk management, claims processing, and administration. Enduris is fully funded by its member participants. Members submit claims to the Pool, which evaluates coverage and manages the claims process.

For the fiscal year ending August 31, 2025, Enduris had 497 members from various special-purpose districts across the state. Members make annual contributions to fund the Pool. Since Enduris is a cooperative program, there is joint liability among the participating members. Membership requires a minimum one-year commitment, with 60 days' notice required to terminate before renewal. The Interlocal Governmental Agreement renews automatically unless withdrawal or termination options are exercised. Withdrawing or terminated members remain liable on a pro rata basis for any assessments levied against the membership during their period of membership, as if they were still a member.

The Enduris program offers various forms of joint self-insurance and reinsurance coverage for its members, including Liability coverage (general, auto, public officials' errors and omissions, terrorism, employment practices), Property coverage (buildings, contents, equipment, boiler/machinery, business interruption), Auto Physical Damage, Cyber coverage, Pollution coverage, Crime Blanket coverage, Named Position coverage, Alliant Deadly Weapon Response Program (ADWRP) coverage, and Identity Fraud Reimbursement coverage. Blanket Accident Insurance is provided for specific participating districts. Pollution, Cyber, Blanket Accident, ADWRP, and Identity Fraud Expense Reimbursement coverage are claims-made and reported; Crime coverage is discovery-based; all other coverage is occurrence-based.

Members may pay a deductible or co-pay for each covered loss, as per the terms of their coverage. Each year, members receive a Memorandum of Coverage detailing their specific coverage, limits, and deductibles. In certain instances, the Pool may allow members to elect limits, coverage, deductibles, and co-pays specific to their needs. Enduris pays for covered losses above the member's deductible or co-pay for the specific coverage, up to the Pool's self-insured retention (SIR), and then uses excess/reinsurance from unrelated insurance companies to indemnify covered losses beyond the SIR up to the coverage maximum limit.

Enduris issues an annual Financial Report that includes financial statements and other required supplementary information. The latest Enduris Washington Financial Statements Audit Report is available on the SAO website. https://sao.wa.gov/reports-data/audit-reports.

NOTE 9 - ENVIRONMENTAL AND CERTAIN ASSET RETIREMENT LIABILITIES:

The Port continues to monitor various Port sites with prior or existing environmental concerns including sites with restrictive covenants.

NOTE 10 - OTHER DISCLOSURES:

Capital Assets and Awards

The Port entered into a contract with the Community Economic Revitalization Board (CERB), consisting of a low interest loan of $1,750,000 with a local match requirement of $883,072, utilizing a combination of Port cash and private capital investment from the Port's partner in the project, to renovate an 11,500 square foot warehouse building at Sanderson Field. In December 2025, the Port awarded a construction contract to the lowest responsible bidder for a total amount of $3,101,966 for the building renovations. Subsequently, the Port requested an amendment from CERB to increase funding by $700,000 for a total loan obligation of $2,450,000 and increase the match to $920,000 for a total contract amount of $3,370,000. The Port anticipates a total estimated project cost of $3,477,175 including contingencies. The Port has expended $162,440 and has not requested any loan reimbursements as of December 31, 2025. The Port anticipates completion of the project in 2026. See Note 10 – *Other Disclosures, Construction Commitments* and *Subsequent Events.*

The Port was awarded a U.S. Department of Transportation Federal Aviation Administration (FAA) grant and a Washington State Department of Transportation (WSDOT) grant to fund a taxiway pavement maintenance and electrical improvements project at Sanderson Field Airport. The Port commenced construction in 2025 for a total estimated project cost of $4,778,225, of which FAA will fund $4,300,328, Washington State Department of Transportation (WSDOT) will fund $230,149 and the balance of $247,748 will be funded with Port cash. The Port has expended $4,316,964 and has received $3,884,759 from FAA and $178,910 from WSDOT in award reimbursements as of December 31, 2025. The Port anticipates project completion in 2026. See Note 10 – *Other Disclosures, Construction Commitments* and *Subsequent Events.*

In February 2025, the Port entered into a contract with CERB through the Prospective Development Construction Program, consisting of a $2,250,000 low interest loan, a $750,000 grant and a local match of $8,055,000, to fund construction of a 29,900 square foot pre-engineered manufacturing facility with two (2) 15-ton bridge cranes at Sanderson Field. The facility will replace the 30,000 square foot building that was permanently impaired due to a fire in 2021. The Port and the insurance company have an agreed upon resolution for $5,727,135 for the replacement costs of the permanently impaired building and $968,635 for loss of rents, additional expenses and property damage for total insurance proceeds of $6,695,770. The Port's consultant provided an initial cost estimate of $11,000,000 and the actual construction bids came in lower than estimated. In August 2025, the Port entered into a contract with a construction company for $6,771,781 to perform the work. The Port anticipates a total estimated project cost of $8,587,857 and intends to request a reduction in the local match identified in the 2024 CERB contract. The Port has expended $1,626,466 in total project costs, including cleanup of the impaired building, and has received $5,503,283 in insurance proceeds as of December 31, 2025. The Port anticipates receiving the balance of insurance proceeds of $1,192,487 and intends to request the initial CERB reimbursement in 2026. The Port anticipates completion of the project in 2027. See Note 10 – *Other Disclosures, Construction Commitments* and *Subsequent Events*.

Contingencies and Litigation

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

NOTE 10 - OTHER DISCLOSURES, CONTINUED:

Contingencies and Litigation – Recoverable Awards

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.

The Port received a recoverable award via the acquisition of Sanderson Field (SF) and its associated land when it had been decommissioned by the federal government after World War II. Various usage requirements run with the airport. Any sale, including any portion of SF, first requires approval by the FAA and WSDOT, and then potentially 90% to 100% of the sale proceeds may be required to be remitted back to the FAA and WSDOT. The period of recoverability of the donated land to the Port is for the lifetime of SF. A current value of SF has not been determined.

Stewardship, Compliance and Accountability

The Port is in compliance with all finance-related legal and contractual provisions.

Construction Commitments

The Port has active construction projects as of December 31, 2025. Included are projects at the Port's Sanderson Field (SF) location.

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

Project	Spent to Date	Remaining Commitment
SF taxiway paving and lighting construction [1]	$ 4,308,682	$ 430,136
SF airport master plan [2]	412,802	87,156
SF building 1 replacement engineering & construction[3]	711,643	6,912,734
SF warehouse building renovations engineering & construction [4]	157,910	3,159,735
SF substation engineering plan[5]	0	117,300
SF north gate replacement[6]	0	17,548
Total Construction Commitments	**$ 5,591,037**	**$ 10,724,609**

[1] Funded by $4.3m FAA award, $230k WSDOT award and Port cash
[2] Funded by $448k FAA award, $25k WSDOT award and Port cash
[3] Funded by insurance proceeds; $2.25m CERB loan and $750,000 CERB grant
[4] Funded by $2.45m CERB loan, $920k match funded by Port cash and private partner investment
[5] Funded by $100,000 EDA grant and a local government partner
[6] Funded by insurance proceeds

See Note 10 – *Other Disclosures, Capital Assets and Awards* and *Subsequent Events.*

NOTE 10 - OTHER DISCLOSURES, CONTINUED:

Subsequent Events

Warehouse Building Renovations Project

In February 2026, the Port entered into Amendment A with CERB to increase the loan funding amount from $1,750,000 to $2,450,000 for the warehouse building renovations project. In 2026, the Port submitted the initial request for loan disbursement and received a total of $511,274. The first CERB loan payment will be due in 2027. See Note 10 – *Other Disclosures*, *Capital Assets and Awards* and *Construction Commitments.*

In 2026, the Port approved a proposal and two change orders totaling $91,349 resulting from unforeseen conditions. The additional expenses consist of interior and exterior building modifications, special inspection and materials testing services, and a redesign of the condenser loop system. The Port anticipates utilizing Port cash for additional contract commitments. See Note 10 – *Capital Assets and Awards* and *Construction Commitments.*

Building 1 Replacement Project

In January 2026, the Port Commission authorized the Executive Director to execute a change order for repaving the road adjacent to the new manufacturing facility in an amount not to exceed $325,000. The final value of the change order is yet to be determined and the Port anticipates executing the change order in June 2026. The Port intends to utilize funding from insurance proceeds and CERB. See Note 10 – *Other Disclosures*, *Capital Assets and Awards* and *Construction Commitments.*

In 2026, the Port received the final insurance settlement proceeds totaling $1,192,487 for the 30,000 square foot building that was permanently impaired due to fire in 2021. See Note 10 – *Other Disclosures, Capital Assets and Awards.*

In 2026, the Port approved two change orders totaling $115,798 for design services related to repaving the road adjacent to the new manufacturing facility and associated stormwater improvements. The Port intends to utilize funding from insurance proceeds and CERB. See Note 10 – *Other Disclosures*, *Capital Assets and Awards* and *Construction Commitments.*

In May 2026, the Port approved a change order for stormwater revisions in the amount of $221,035. The Port intends to utilize funding from insurance proceeds and CERB. See Note 10 – *Other Disclosures*, *Capital Assets and Awards* and *Construction Commitments.*

Substation Feasibility Study

In April 2026, the Port's consultant completed a site feasibility study for future construction of a Substation which will service the development of a two-acre site at Sanderson Field. The study was funded by the United States Department of Commerce Economic Development Administration (EDA). The total amount expended in 2026 was $115,347, of which EDA will reimburse the Port 80%, or $92,278, and the balance will be funded by another local government agency. The Port anticipates receiving the funding in 2026. See Note 10 – *Other Disclosures, Construction Commitments.*

Port of Shelton
Schedule of Liabilities
For the Year Ended December 31, 2025

ID. No.	Debt ID Title	Description	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	Non-voted General obligation bonds	Tax Exempt Serial Bonds for Buildings and Infrastructure, ISSUED 08/15/2005	85,000	-	85,000	-
263.83	Loans and other obligations to Washington state agencies (Except LOCAL and PWTF loans)	CERB/JP Roof and Infrastructure, ISSUED 08/28/2017	219,764	-	14,224	205,540
263.83	Loans and other obligations to Washington state agencies (Except LOCAL and PWTF loans)	CERB/JP Infrastructure, ISSUED 05/18/2017	116,096	-	7,701	108,395
263.83	Loans and other obligations to Washington state agencies (Except LOCAL and PWTF loans)	CERB/JP Site Work and Building Expansion, ISSUED 12/18/2018	1,500,000	-	56,198	1,443,802
		Total General Obligation Debt/Liabilities:	**1,920,860**	**-**	**163,123**	**1,757,737**
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences	Compensated Absences	182,459	17,318	-	199,777
263.62	Notes Payable (promissory notes, BANs, TANs, GANs, etc.)	Promissory Note - Building	262,079	-	33,146	228,933
264.30	Pension Liabilities	Pension Liabilities	60,537	-	16,891	43,646
264.40	OPEB Liabilities	OPEB Liabilities	426,691	-	98,299	328,392
263.57	Leases, SBITA, and PPPs	Lease - Copier	11,172	-	4,788	6,384
263.57	Leases, SBITA, and PPPs	Lease - Telephone	6,831	-	2,484	4,347
		Total Revenue and Other (non G.O.) Debt/Liabilities:	**949,769**	**17,318**	**155,608**	**811,479**
		Total Liabilities:	**2,870,629**	**17,318**	**318,731**	**2,569,216**

Port of Shelton
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2025

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass-Through Awards	From Direct Awards	Total		
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program, Infrastructure Investment and Jobs Act Programs, and COVID-19 Airports Programs	20.106		-	3,881,556	3,881,556	-	1.2.3
FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program, Infrastructure Investment and Jobs Act Programs, and COVID-19 Airports Programs	20.106			-	333,197	333,197	-	1.2.3
			Total ALN 20.106:	**-**	**4,214,753**	**4,214,753**	-	
			Total Federal Awards Expended:	**-**	**4,214,753**	**4,214,753**	**-**	

The accompanying notes are an integral part of this schedule.

Port of Shelton
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2025

Note 1 - Basis of Accounting

This Schedule is prepared on the same cash basis of accounting as the Port's financial statement and in accordance with requirements contained in Uniform Guidance. The Port uses the cash basis of accounting where revenues are recognized when cash is received and expenditures are recognized when paid. Capital asset purchases including major repairs are expensed when paid. Long-term liabilities are accounted for on the *Schedule of Liabilities* (Schedule 09).

Note 2 - Federal Indirect Cost Rate

The Port has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 - Program Costs

The amounts shown as current year expenditures represent only the federal award portion of the program costs. Entire program costs, including the Port's portion, are more than shown. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

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