



# Washington State Auditor's Office

Government that works for citizens

## Financial Statements and Federal Single Audit Report

### Port of Bremerton

Kitsap County

For the period January 1, 2015 through December 31, 2015

Published September 15, 2016

Report No. 1017392





## Washington State Auditor's Office

September 15, 2016

Board of Commissioners  
Port of Bremerton  
Bremerton, Washington

### **Report on Financial Statements and Federal Single Audit**

Please find attached our report on the Port of Bremerton'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 condition.

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Port of Bremerton  
Kitsap County  
January 1, 2015 through December 31, 2015**

## SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Port of Bremerton 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 basic financial statements in accordance with accounting principles generally accepted in the United States of America (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:

<u>CFDA No.</u>	<u>Program Title</u>
20.205	Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Port qualified 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 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 Bremerton  
Kitsap County  
January 1, 2015 through December 31, 2015**

Board of Commissioners  
Port of Bremerton  
Bremerton, 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 Bremerton, Kitsap County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated September 7, 2016. As discussed in Note 13 to the financial statements, during the year ended December 31, 2015, the Port implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

**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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **COMPLIANCE AND OTHER MATTERS**

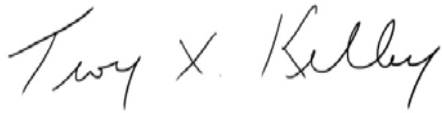
As part of obtaining reasonable assurance about whether the Port's financial statements are free from material misstatement, we performed tests of the Port's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large initial 'T' and 'K'.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 7, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**Port of Bremerton  
Kitsap County  
January 1, 2015 through December 31, 2015**

Board of Commissioners  
Port of Bremerton  
Bremerton, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of the Port of Bremerton, Kitsap County, Washington, with the types of compliance requirements described 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, 2015. The Port's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Port's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Port's compliance.

### **Opinion on Each Major Federal Program**

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, 2015.

### **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Port's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

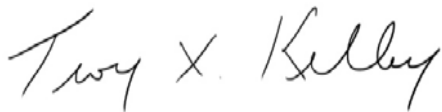
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies

in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **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.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 7, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Port of Bremerton Kitsap County January 1, 2015 through December 31, 2015**

Board of Commissioners  
Port of Bremerton  
Bremerton, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Port of Bremerton, Kitsap County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 16.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Port's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Bremerton, as of December 31, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 13 to the financial statements, in 2015, the Port adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 21 and pension plan information on pages 52 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express

an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

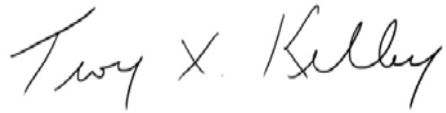
### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port's basic 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). This schedule is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2016 on our consideration of the Port's internal control over financial reporting and on our 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 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.

A handwritten signature in blue ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 7, 2016

## **FINANCIAL SECTION**

**Port of Bremerton  
Kitsap County  
January 1, 2015 through December 31, 2015**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2015

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2015

Statement of Revenues, Expenses and Changes in Net Position – 2015

Statement of Cash Flows – 2015

Notes to Financial Statements – 2015

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Employer Contributions – 2015

Schedule of Proportionate Share of the Net Pension Liability – 2015

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2015

Notes to the Schedule of Expenditures of Federal Awards – 2015



# MANAGEMENT'S DISCUSSION AND ANALYSIS

Years ended December 31, 2015 and 2014

## INTRODUCTION:

This document is the Port of Bremerton's (Port) Management Discussion and Analysis (MD&A) of financial activities and performance for the calendar years ended December 31, 2015 and 2014. It provides an introduction to the Port's 2015 financial statements. Information contained in this MD&A has been prepared by Port management and should be considered in conjunction with the financial statements and the notes to the financial statements.

The notes are essential to a full understanding of the data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures.

## OVERVIEW OF THE FINANCIAL STATEMENTS:

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The basic financial statements include: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Fund Net Position, and the Statement of Cash Flows.

Analysis of the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position illustrate whether the Port's financial position has improved as a result of the year's activities. The Statement of Net Position presents information on the Port's assets owned, deferred outflows, liabilities owed at a specific point in time and deferred inflows. The difference between the two is reflected as net position. Over time the increases and decreases in net position may serve as an indicator of whether the financial position of the Port is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Fund Net Position reflect how the operating and non-operating activities of the Port affected changes in the net position of the Port. These activities are recorded under the accrual basis of accounting reflecting the timing of the underlying event regardless of the timing of related cash flows.

Although the financial statements provide useful information in assessing the financial health of the Port, consideration of other factors not shown on the financial reports should be evaluated to assess the Port's true financial condition. Factors such as changes in the Port's tax base and the condition of the Port's asset base are also important when assessing the overall financial condition of the Port.

Government entities typically account for activities by utilizing "fund" accounting. A fund is a grouping of related accounts that is used to maintain control or restrict the use of resources that have been segregated for specific activities or objectives. The Port uses only one fund, an enterprise fund, which reports all business type activities of the Port.

## FINANCIAL ANALYSIS OF THE PORT:

- Port total assets and deferred outflows exceeded its liabilities and deferred inflows by \$80.5 million (reported as total net position) at the close of 2015 and by \$79.8 million in 2014. Of this amount, \$62.7 million in 2015 and \$62.5 million in 2014 are invested in capital assets, net of related debt.
- The Port's net position increased in 2015 over 2014 by \$699,809, compared to the increase in 2014 of \$3,562,968 primarily due to the implementation of Governmental Accounting Standards Board (GASB) Statement 68 – Accounting and Financial Reporting for Pensions, which resulted in the recognition of \$1.322 million pension fund liability. The 2015 increase reflects the increase in cash investments.
- The Port's long-term debt decreased by \$229,317 in 2015 and by \$210,786 in 2014. Both 2015 and 2014 decreases resulted from debt payments on the bonds and loans.
- Operating revenues for 2015 and 2014 totaled \$3,676,610 and \$3,531,637 respectively.
- Operating expenses totaled \$7,322,126 for 2015 and \$7,244,828 for 2014.

## PORT OF BREMERTON'S CONDENSED STATEMENT OF NET POSITION:

	2015	2014
<b>Assets:</b>		
Current assets	\$ 17,642,016	\$ 16,224,486
Restricted assets	305,481	255,844
Net capital assets	66,586,596	66,596,640
Non-current assets	2,599,905	2,699,905
<b>Total assets</b>	<b>\$ 87,133,998</b>	<b>\$ 85,776,875</b>
Deferred Outflows of Resources	195,091	
Deferred Outflows – Pensions		
<b>Total Deferred Outflows of Resources</b>		
<b>Liabilities:</b>		
Current liabilities	\$ 1,571,184	\$ 2,015,177
Long-term liabilities	3,732,536	3,961,853
Net pension liabilities	1,321,874	
<b>Total liabilities</b>	<b>\$ 6,625,594</b>	<b>\$ 5,977,030</b>
Deferred Inflows of Resources	203,841	
Deferred Inflows – Pensions		
<b>Total Deferred Inflows of Resources</b>		
Net position:		
Investment in capital assets	\$ 62,708,956	\$ 62,496,014
Restricted for capital projects	0	0
Unrestricted net position	17,790,698	17,303,831
<b>Total net position</b>	<b>\$ 80,499,654</b>	<b>\$ 79,799,845</b>

## **PORT OPERATING FINANCIAL ACTIVITY:**

As noted earlier, the Port uses only one fund, an enterprise fund, to comply with Washington State mandated reporting requirements. The Port's operations consist of airport and industrial park operations, land and building leases, and operating a variety of recreational facilities. Of the recreational facilities, the Port Orchard and Bremerton marinas produce the largest portion of revenue from these sources. The remaining recreational facilities, such as boat ramps and parks produce little to no revenue.

Summary of Statement of Revenues, Expenses and Changes in Fund Net Position:  
The Statement of Revenues, Expenses and Changes in Fund Net Position show how the Port's net position changed during the current and previous fiscal year as a result of operations. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will only affect future period cash flows.

The following summary represents the 2015 operating results to budget:

**Revenues:** In 2015 operating revenues increased 4.17% over budgeted revenues or \$147,048 in excess of budget. The 2014 operating revenues were below budget by 3.0% or \$109,593. The Port has experienced stable occupancy of its industrial leasehold facilities over the past two years and the Port is continuing to achieve increased occupancy in the Bremerton marina.

**Expenses:** 2015 operating expenses, before depreciation, were \$685,040 (13.25%) below budget, attributed to the Port's continued cutback in operational costs and overall spending. Operating expenses in 2014 were \$587,781 lower than budgeted.

**Non-Operating:** 2015 non-operating revenues were \$201,426 over budget (5.73%), with other non-operating expenses of \$23,542 (11.94%) under budget. In 2014, non-operating revenues were \$37,560 below budget (1.09%) with non-operating expenses \$1,878 (less than 1%) under budget.

Grant contributions were down in 2015 over 2014 by \$1,150,009, a result of several FAA grant projects having been completed. The Port has had continued success in receiving major grant funding for airport and marina projects.

**PORT OF BREMERTON'S CONDENSED STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN FUND NET POSITION:**

	<b>2015</b>	<b>2014</b>
<b>Operating Revenues</b>		
Airport operations	\$ 241,543	\$ 234,195
Marina operations	1,840,846	1,657,381
Property lease/rental operations	1,594,221	1,639,978
Other		83
<b>Total operating revenues</b>	<b>3,676,610</b>	<b>3,531,637</b>
<b>Non-operating Revenues</b>		
Ad valorem tax revenues	3,522,552	3,407,560
Investment income	28,001	16,470
Other non-operating income	166,062	66,052
<b>Total non-operating revenues</b>	<b>3,716,615</b>	<b>3,490,082</b>
<b>Total revenues</b>	<b>7,393,225</b>	<b>7,021,719</b>
<b>Operating Expenses</b>		
General operations	3,706,419	3,473,685
Maintenance	204,538	280,531
General and Administrative	575,590	630,156
Depreciation	2,835,579	2,860,456
Non-operating expenses	173,647	153,785
<b>Total expenses</b>	<b>7,495,773</b>	<b>7,398,613</b>
<b>Change in Net Position</b>	<b>(102,548)</b>	<b>(376,894)</b>
Capital contributions	2,176,496	3,326,505
<b>Change in Fund Net Position</b>	<b>\$ 2,073,948</b>	<b>\$ 2,949,611</b>
Total Net Position - Beginning	<b>79,799,845</b>	<b>76,236,877</b>
Change in Accounting Principle	<b>(1,374,139)</b>	0
Prior period adjustment		613,357
<b>Total Net Position - Ending</b>	<b>\$80,499,654</b>	<b>\$79,799,845</b>

The Port's overall financial position has improved in 2015, reflecting increased marina operational revenue and the success in receiving additional grant funding, while keeping operating expenses relatively constant. Operating revenues increased 4.1% (\$144,973) and operating expenses increased \$77,298 from 2014. The 2014 financial position had improved by increased operational revenue and grant funding.

**CAPITAL ASSETS:**

The Port's capital asset investment at the end of 2015 is \$66,586,596, net of accumulated depreciation and \$66,596,640 for 2014. Capital assets consist of land, buildings, machinery and equipment, and construction in progress. Capital assets remained nearly flat in 2015. Additional information on the Port's capital assets activity may be found in Note 4 in the notes to the financial statements.

There are no restrictions, commitments, or other limitations that significantly affect the availability of fund resources for future use.

### **DEBT ADMINISTRATION:**

The Port has outstanding general obligation debt at December 31, 2015 of \$3,385,000 compared to \$3,570,000 in 2014.

The Port's \$432,000 low interest loan through CERB (Community Economic Revitalization Board) was used as a funding source for the FBO (Fixed Base Operator) building at the airport. The repayment schedule for this loan began in January 2005 and continues through January 2024. The balance at December 31, 2015 and 2014 respectively were \$224,012 and \$245,637. Funds from a low interest \$364,471 CERB loan were received for investment in infrastructure at the Bremerton National Airport, with outstanding balances of \$280,458 and \$297,678 for 2015 and 2014 respectively. Refer to Note 9 of the Notes to Financial Statements.

### **2016 BUDGET:**

The Port's 2016 budget anticipates Operating Revenues will be \$90,958 below comparable operations for 2015 while operating expenses are budgeted to increase \$461,688 or 10.3% from 2015. The Port's restructuring plan has been carried through 2015 operations, but now requires some operational cost increases in the 2016 budget process. The loss from Port operations before depreciation and before the general tax levy (partially used for operations) is anticipated to be approximately \$1.36 million. After including the general tax levy, operating income is estimated at \$2.2 million.

In 2016, \$1,532,356 is required for capital projects, net of anticipated grants. This total includes various capital improvements in airport, marinas and real estate projects. Many of these projects are complex and are anticipated to occur over multiple years and are currently in various stages of planning, design and permitting.

Continuing to increase cash balances in 2016, the Port expects that \$266,694 will be available for future capital projects so directed by the Board of Commissioners.

The Port's budget is developed with consultation of much of the Port's management and through analysis of Port operations. However, all budgets inherently are forecasts and the actual results will likely vary from that provided for in the budget. Assumptions regarding interest rates, economic growth and natural disasters are among the many factors that may cause a significant variance of actual results to the budget.

### **REQUEST FOR INFORMATION:**

The Port of Bremerton designed this financial report to provide our citizens, customers, investors and creditors with an overview of the Port's finances. If you have questions or need additional information, please visit our website at [www.portofbremerton.org](http://www.portofbremerton.org) or contact the Chief Financial Officer at 8850 SW State Hwy 3, Bremerton, WA 98312. Telephone: 360/674-2381.

**PORT OF BREMERTON**  
**Statement of Net Position**  
**December 31, 2015**

**ASSETS****CURRENT ASSETS:**

Cash and cash equivalents (Note 1 and 2)	\$ 16,601,706
Restricted assets:	
Cash and cash equivalents (Note 1 and 2)	305,481
Taxes receivable (Note 3)	185,654
Accounts receivable (net of allowance for uncollectibles) (Note 1)	228,630
Due from other governments - current portion (Note 1 and 5)	100,000
Other receivables	227,915
Inventory (Note 1)	32,039
Prepaid expenses	266,072

**TOTAL CURRENT ASSETS** **17,947,497**

**NON-CURRENT ASSETS:****Capital assets not being depreciated (Note 4)**

Land	7,139,949
Construction in progress	5,695,931

**Capital assets being depreciated (Note 4)**

Buildings and structures	39,736,649
Machinery and equipment	1,928,984
Marina and other improvements	52,107,104
Less: Accumulated depreciation	(40,022,021)

**Total Net Capital Assets** **66,586,596**

**Other Non-Current Assets**

Due from other governments - Long term portion (Note 1 and 5)	2,599,905
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**TOTAL OTHER NON-CURRENT ASSETS** **2,599,905**

**TOTAL NONCURRENT ASSETS** **69,186,501**

**TOTAL ASSETS** **\$ 87,133,998**

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows - Pensions (Note7)	\$ 195,091
<b>Total Deferred Outflows of Resources</b>	<b>195,091</b>

See accompanying notes to financial statements.

**PORT OF BREMERTON**  
**Statement of Net Position**  
**December 31, 2015**

**LIABILITIES****CURRENT LIABILITIES:**

Warrants payable	\$ 113,875
Accounts payable	344,509
Accrued expenses	298,937
Unearned revenue	146,006
Accrued interest payable	20,144
Payable from restricted assets (customer deposits)	306,766
Current portion of long-term liabilities (Note 9)	340,947
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,571,184</b>

**NON-CURRENT LIABILITIES:**

General obligation bonds (Note 9)	3,183,171
CERB loans (Note 9)	464,846
Employee leave benefits (Note 1)	84,519
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>3,732,536</b>
Total Net Pension Liability	<b>1,321,874</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 6,625,594</b>

**DEFERRED INFLOWS OF RESOURCES**

Total Deferred Inflows - Pension	<b>203,841</b>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>203,841</b>

**NET POSITION:**

Net investment in capital assets	62,708,956
Restricted for capital projects	-
Unrestricted	17,790,698
<b>TOTAL NET POSITION</b>	<b>\$ 80,499,654</b>

See accompanying notes to financial statements.

**PORT OF BREMERTON**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For Year Ended December 31, 2015**

**REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION****OPERATING REVENUES:**

Airport operations	\$ 241,543
Marina operations	1,840,846
Property lease/rental operations	1,594,221
Other	-
<b>Total Operating Revenues</b>	<b>3,676,610</b>

**OPERATING EXPENSES:**

General operations	3,706,419
Maintenance	204,538
General and administrative	575,590
Depreciation (Note 4)	2,835,579
<b>Total Operating Expenses</b>	<b>7,322,126</b>

**Operating Income (Loss)** **(3,645,516)**

**NONOPERATING REVENUES (EXPENSES):**

Investment income	28,001
Taxes levied for:	
General purposes (Note 3)	3,198,924
Debt service principal/interest (Note 3)	323,628
Gain (loss) on disposition of assets	377
Interest expense	(149,000)
Election expense	(24,222)
Other nonoperating revenues (expenses)	165,260
<b>Total Non-Operating Revenues (Expenses)</b>	<b>3,542,968</b>

**Income (loss) before other revenues, expenses, gains, losses  
and transfers** **(102,548)**

**Capital contributions** **2,176,496**

**Increase (decrease) in Net Position** **\$ 2,073,948**

**Net Position as of January 1** **\$ 79,799,845**  
Change in Accounting Principle (Note 13) (1,374,139)

**Net Position as of December 31** **\$ 80,499,654**

See accompanying notes to financial statements.



**Port of Bremerton  
Statement of Cash Flows  
For the year ended December 31, 2015**

	<u><b>2015</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 3,453,162
Payments to suppliers	(2,183,953)
Payments to employees	(2,268,492)
Other receipts	165,653
Other payments	(25,375)
<b>Net cash provided (used) by operating activities</b>	<u><b>(859,006)</b></u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Property tax receipts	3,262,784
<b>Net cash provided (used) by noncapital financing activities</b>	<u><b>3,262,784</b></u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Property tax receipts for capital assets	323,628
Receipts from capital asset sale	100,000
Acquisition and construction of capital assets	(3,272,885)
Capital Contributions	3,010,549
Principal paid on bonds and note	(223,537)
Interest paid on bonds and note	(149,000)
<b>Net cash provided (used) by capital and related financing activities</b>	<u><b>(211,245)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received on investments	28,001
<b>Net increase (decrease) in cash and cash equivalents</b>	<u><b>2,220,534</b></u>
<b>Balances - beginning of year</b>	<u>14,686,653</u>
<b>Balances - end of year</b>	<u><u><b>16,907,187</b></u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating income (loss)	\$ (3,645,486)
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	2,835,579
Change in assets and liabilities:	
(Increase) decrease in accounts receivable (net)	(163,611)
(Increase) decrease in fuel inventory	13,915
(Increase) decrease in prepayments	3,483
Increase (decrease) in warrants payable	8,595
Increase (decrease) in accounts payable	(13,009)
Increase (decrease) in customer deposits	40,132
Increase (decrease) in unearned revenue	61,396
Increase (decrease) in accrued expenses	-
<b>Net cash provided (used) by operating activities</b>	<u><b>(859,006)</b></u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

## **PORT OF BREMERTON**

Notes to Financial Statements

January 1, 2015 through December 31, 2015

These notes are an integral part of the accompanying financial statements.

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Port of Bremerton was incorporated in October 1913 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) as applied to governments.

In compliance with the Government Accounting Standards Board, the Port implemented GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

#### A. Reporting Entity

The Port is a special purpose government and provides airport, harbor and industrial park facilities to the general public and is supported primarily through user charges.

The Port is governed by an elected three member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. These financial statements present the Port and its component unit. The component unit discussed below is included in the Port's reporting entity because of its operational or financial relationship with the Port.

The Economic Development Corporation of the Port of Bremerton, a public corporation, is authorized to facilitate the issuance of tax-exempt nonrecourse revenue bonds to finance economic development within the corporate boundaries of the Port. Revenue bonds issued by the Corporation are payable from revenues derived as a result of the economic development facilities funded by the revenue bonds. The bonds are not a liability or contingent liability of the Port or a lien on any of its properties or revenues other than the industrial facilities for which they were issued. The Port's Board of Commissioners governs the Economic Development Corporation. The Corporation did not have any activity during the current year; therefore there is nothing to report.

#### B. 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 GAAP Port Districts* 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 position. Their reported fund position is segregated into net investment in capital assets, restricted and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. The Port discloses changes in cash flows by a separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

The Port uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate fund(s).

The Port distinguishes between operating revenues and expenses from nonoperating ones. 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 boat moorage and aircraft hanger rent and tie-down. The Port also recognizes as operating revenue land and building lease revenue. Operating expenses for the Port include general operations expenses, maintenance, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Port receives federal and state grants for both capital reimbursement as well as operating grants for specific purposes. Operating grants and related expenses are accounted for as Non-operating Revenues and Expenses while Capital grants are accounted for as Capital Contributions increasing the Net Position of the Port.

#### Use of Estimates

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

#### Significant Risks and Uncertainties

The Port is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include economic conditions, collective bargaining disputes, federal, state and local government regulations, and changes in law.

C. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

The Port acts as its own treasurer. It is the Port's policy to invest all temporary cash surpluses. At December 31, 2015, the Port was holding \$16,601,706 in short-term residual investments of surplus cash. This amount is classified on the statement of net position as cash and cash equivalents.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during 2015 were approximately \$733,235.

For purposes of the statement of cash flows, the Port considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Short-Term Investments – See Note 2 Deposits and Investments.

3. Receivables

Taxes receivable consist of property taxes and related interest and penalties. See Note 3 Property Tax. Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

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

Receivables have been recorded net of estimated uncollectible amounts. Because property taxes and special assessments are considered liens on property, no estimated uncollectible amounts are established. The allowance method is used to account for bad debt expense. The allowance for doubtful accounts for customer accounts receivables is \$9,000 at December 31, 2015.

4. Amounts Due To and From Other Governments

These accounts include amounts due to or due from other governments for grants, entitlements, temporary loan, taxes and charges for services.

The Port has a non-interest bearing long-term receivable with a local transit authority for reimbursable costs related to the design and construction costs of the Passenger Only Ferry Operations Float and Service Float in Bremerton in the amount of \$2,699,905. The

receivable was previously conditioned upon regularly scheduled full daily passenger only ferry service operating from the Bremerton ferry terminal. An Interlocal Agreement and Memorandum of Agreement were executed in 2007 and 2009 respectively. In 2012 an A-Float – B Pontoon Reimbursement, Maintenance and Use Agreement was executed, providing a reimbursement schedule of \$100,000 annual installments, beginning March 1, 2013. An accelerated repayment term is also included in the agreement, such that if and when long term operational funding for the initiation and undertaking of regular cross-sound passenger only ferry service between Seattle and Bremerton is secured, the unpaid balance of the receivable is to be paid in four equal annual installments. If service is not initiated or is cancelled, the 30 year repayment plan resumes.

5. Inventories

Inventories for fuel sales are valued by the FIFO method (which approximates the market value). The Port maintains a small inventory of office supplies and maintenance parts. Parts and supplies are expensed as purchased and no inventory of these items is maintained.

6. Restricted Assets and Liabilities

In accordance with bond resolutions and certain related agreements, separate restricted accounts are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special restricted requirements. Specific debt service reserve requirements are described in Note 10 Long-Term Debt and Leases.

The restricted assets are composed of the following:

Cash and Cash Equivalents	\$	<u>305,481</u>
Total Restricted Assets	\$	305,481

Only customer deposits are shown with a related liability.

7. Capital Assets and Depreciation - See Note 4 Capital Assets and Depreciation.

8. Other Assets and Debits

There are no other assets and debits at December 31, 2015.

9. Compensated Absences

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

Vacation pay, which may be accumulated up to a maximum of 40 days, is payable upon resignation, retirement or death at employee's regular pay rate. Sick leave may accumulate up to a maximum of 90 days. For non-union employees who have reached their maximum sick leave accrual, the monthly value of excess sick leave is deposited into the employee's VEBA account.

Administrative, non-union employees are provided, at termination, sick leave cash out payment at his/her regular pay rate according to the following schedule:

Less than 5 years' service	0 %
At least 5 but less than 10 years of service	20 %
At least 10 but less than 15 years of service	35 %
At least 15 but less than 20 years of service	50 %
20 or more years of service	75 %

Union employees who retire from the Port under the Port's retirement plan shall be provided a sick leave cashout payment at seventy-five percent (75%) of the employee's accrued and unused sick leave hours.

10. Other Accrued Liabilities

These accounts consist of accrued wages payable, accrued employee benefits, and sales and business taxes.

11. Deferred Inflows and Outflows of Resources

The Port reports a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then.

12. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized

when due and payable in accordance with the benefit terms. Investments are reported at fair value.

13. Long-Term Debt – See Note 10 Long-Term Debt and Leases.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**DEPOSITS**

The Port’s deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or for deposits in the Washington State Local Government Investment Pool are secured by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). In accordance with GASB criteria, PDPC protection is of the nature of collateral, not of insurance. The Pool is a 2a7-like investment operated by the Washington State Treasurer that is not rated and is subject to annual audits by the Washington State Auditor’s Office.

**INVESTMENTS**

As of December 31, 2015, the Port had the following short term investments with the Local Government Investment Pool (LGIP), which are considered cash or cash equivalent:

Local Government Investment Pool	\$16,669,017
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All temporary investments are stated at cost, which is equivalent to fair value for these investments.

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the Port would not be able to recover the value of the investment or collateral securities. None of the Port’s investments are held by counterparties.

Investment Type	Moody’s Investor Service	Standard & Poor’s
Washington Local Government Investment Pool	N/R	N/R

**NOTE 3 – PROPERTY TAXES**

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities.

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 payment is due.

Property taxes are recorded as a receivable and revenue when levied. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The Port may levy up to \$ .45 per \$1,000 of assessed valuation for general governmental services. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The Port may also levy taxes at a lower rate.

Special levies approved by the voters are not subject to the above limitations.

The Port's regular and debt service levy for 2015 was \$.3881 per \$1,000 on an assessed valuation of \$9,036,250,218 for a total regular levy of \$3,507,337.



**NOTE 4 – CAPITAL ASSETS AND DEPRECIATION**

- A. Major expenditures for capital assets, including capital leases and 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 (or estimated historical cost, where historical cost is not known/or estimated market value for donated assets).

The Port has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. 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.

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant system, the original cost is removed from the Port's plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

An allowance for funds used during construction is capitalized as part of the cost of Port plant. The procedure is intended to remove the cost of financing construction activity from the income statement and to treat such cost in the same manner as construction labor and material costs.

The Port's policy is to capitalize all asset additions greater than \$5,000, with an estimated life of more than one year. Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight line method. Buildings and improvements are assigned useful lives of 25 to 33 years; equipment 5 to 10 years; and furniture and fixtures 5 to 10 years.

B. Capital assets activity for the year ended December 31, 2015, was as follows:

	BEGINNING ASSET BALANCE January 1, 2015	ADDITIONS	DELETIONS	ENDING ASSET BALANCE December 31, 2015
<b>Capital assets, not being depreciated:</b>				
Land	\$ 7,139,949	\$ 0	\$ 0	\$ 7,139,949
Construction in progress	4,946,485	2,803,265	2,053,818	5,695,931
<b>Total capital assets, not being depreciated</b>	<b>12,086,434</b>	<b>2,803,265</b>	<b>2,053,818</b>	<b>12,835,881</b>
<b>Capital assets being depreciated:</b>				
Buildings & structures	38,571,674	1,333,524	168,549	39,736,649
Machinery and equipment	1,959,851	5,303	36,171	1,928,984
Marina and other improv.	51,367,968	739,136	0	52,107,104
<b>Total capital assets being depreciated</b>	<b>91,899,493</b>	<b>2,077,963</b>	<b>204,720</b>	<b>93,772,736</b>
<b>Less accumulated depreciation for:</b>				
Buildings & structures	18,397,100	1,095,108	168,549	19,323,659
Machinery and equipment	1,667,116	84,116	34,297	1,716,936
Marina and other improv.	17,325,071	1,656,356	0	18,981,426
<b>Total accumulated depreciation</b>	<b>37,389,287</b>	<b>2,835,580</b>	<b>202,846</b>	<b>40,022,021</b>
<b>Total capital assets, being depreciated, net</b>	<b>54,510,206</b>	<b>(757,617)</b>	<b>1,874</b>	<b>53,750,714</b>
<b>Total Net Capital Assets</b>	<b>\$66,596,640</b>	<b>2,045,648</b>	<b>2,055,692</b>	<b>\$66,586,595</b>

C. Construction Commitments

The Port has active construction projects as of December 31, 2015. The major projects include Cross SKIA connector road, taxiway rehabilitation design, and pier replacement.

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

Project	Spent To Date	Remaining Commitment
Cross SKIA Phase 2 (Design)	\$ 739,710	
Cross SKIA Phase 2 (Construction)	2,101,010	
Evergreen Boat Launch	116,839	356,524
Wildlife Hazard Management	37,256	5,890
Taxiway & Apron Construction	2,324,061	5,625
Wifi Installation	161,652	
Marina Security Cameras	37,109	
Port Orchard Park Overlook	3,820	
Port Orchard Marina Curtain Project	27,004	
Airport Playground	2,280	
Large Onsite Sewage Disposal	14,290	
Sewer Aerator	4,809	
HVAC Installation		
SAFE Boats – Small Boats/Corporate	5,182	
SAFE Boats – Large Boats/Training	64,495	6,793
Airport Diner	9,698	3,765
Airport Terminal	15,408	4,240
Admin Office Generator	31,308	7,691
	\$ 5,695,931	\$ 390,528

Of the committed balance of \$390,528, the Port will not be required to raise funds in future financing.

**NOTE 5 – DUE FROM OTHER GOVERNMENTS**

The annual minimum receivable amount Due from Other Governments is as follows:

Year Ending December 31	Receivable Amount
2016	100,000
2017	100,000
2018	100,000
2019	100,000
2020	100,000
2021-2025	500,000
2026-2030	500,000
2031-2035	500,000
2036-2040	500,000
2041-2042	199,905
Total	\$ 2,699,905

**NOTE 6 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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

**NOTE 7 – PENSION PLANS**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$ 1,321,875
Pension assets	\$ 0
Deferred outflows of resources	\$ 195,091
Deferred inflows of resources	\$ 203,841
Pension expense/expenditures	\$ 116,846

**State Sponsored Pension Plans**

Substantially all Port 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 state

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

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 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

### **Public Employees' Retirement System (PERS)**

PERS members include elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs.

PERS is comprised of three separate plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 consecutive highest service months.

Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 20, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

The Port’s actual contributions to the plan were \$70,248 for the year ended December 31, 2015.

**PERS Plan 2/3** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member’s 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. 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 12 months of that service are earned after age 44.

**PERS Plan 3** defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18% percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2</b>
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

The Port’s actual contributions to the plan were \$90,112 for the year ended December 31, 2015.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation: 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age on year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.



**Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

**Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB’s capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

**Estimated Rates of Return by Asset Class**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB’s most recent long-term estimate of broad economic inflation.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	<b>100%</b>	

**Sensitivity of NPL**

The table below presents the Port’s proportionate share\* of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Port’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	<b>1% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
PERS 1	\$ 854,930	\$ 702,200	\$ 570,866
PERS 2/3	1,811,963	619,675	(293,214)

**Pension Plan Fiduciary Net Position**

Detailed information about the State’s pension plans’ fiduciary net position is available in the separately issued DRS financial report.

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2015, the Port’s reported a total pension liability of \$1,321,875 for its proportionate share of the net pension liabilities as follows:

	<b>Liability (or Asset)</b>
PERS 1	\$ 702,200
PERS 2/3	619,675

At June 30, the Port’s proportionate share of the collective net pension liabilities was as follows:

	<b>Proportionate Share 6/30/14</b>	<b>Proportionate Share 6/30/15</b>	<b>Change in Proportion</b>
PERS 1	.013596%	.013424%	(.000172%)
PERS 2/3	.016100%	.017343%	.001243%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer’s proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the year ended December 31, 2015, the Port recognized pension expense as follows:

	<b>Pension Expense</b>
PERS 1	\$ 31,767
PERS 2/3	\$ 85,080

**Deferred Outflows of Resources and Deferred Inflows of Resources**

At December 31, 2015, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 65,872	\$ 0
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	\$ 203,842
Changes of assumptions	\$ 998	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 39,995	\$ 0
Contributions subsequent to the measurement date	\$ 88,225	\$ 0
<b>TOTAL</b>	<b>\$ 195,091</b>	<b>\$ 203,842</b>

Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>PERS 1</b>	<b>PERS 2/3</b>
2016	(\$14,889)	(\$33,150)
2017	(\$14,889)	(\$33,150)
2018	(\$14,889)	(\$33,150)
2019	\$ 6,250	\$ 40,892
2020	\$ 0	\$ 0
Thereafter	\$ 0	\$ 0

Deferred Compensation Plans

The Port offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. These plans are with independent plan Administrators (Nationwide Retirement Solutions and the Washington State Committee for Deferred Compensation). The plans, available to eligible employees at their option, permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Compensation deferred under the plans and all income attributable to the plans is solely the property of the employee. The plan administrator holds the money, in the employee’s name, in a custodial trust fund.

**NOTE 8 – RISK MANAGEMENT**

The Port is exposed to various risks of loss related to torts; damage to, theft of and destruction of assets; and natural disasters. To limit exposure, the Port participates in the Pacific Northwest Port Association Group, comprised of eight ports to go to the property and liability insurance market for its insurance needs to take advantage of group size to obtain efficiencies in insurance costs. Each member of the group obtains individual policies and individual premiums for its coverage. There is no sharing of risks or claims.

General liability coverage is in effect to a limit of \$1 million with a \$25,000 deductible. Excess liability coverage is in effect with a limit of \$50 million over the first \$1 million of loss. Airport liability coverage of \$20 million has a deductible of \$250,000. Commercial property coverage with a loss limit of \$100 million including \$30 million of earthquake and flood is in effect with a deductible of \$25,000. In addition, the Port maintains standard business automobile, skiff, boiler and machinery, crime and public officials’ coverage.

In comparison to prior years, there were no significant changes in the type and coverage of insurance policies purchased by the Port. Settlement claims have not exceeded commercial coverage in any of the past three years.

**NOTE 9 – LONG-TERM DEBT AND LEASES**

**A. Long-Term Debt**

The Port issued general obligation bonds in 2009 for the purchase of property adjacent to the Bremerton marina. The Port is also liable for low interest CERB loans to finance the construction of the FBO building and a waterline project.

The general obligation bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
2009 Series – Purchase of waterfront property adjacent to Bremerton marina	2029	1.75% - 4.30%	\$4,425,000	\$ 321,242

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

Year Ending December 31	2009 Series		Other Contracts	
	Principal	Interest	Principal	Interest
2016	190,000	132,800	39,624	9,077
2017	195,000	127,575	40,420	8,280
2018	200,000	121,725	41,235	7,465
2019	210,000	115,225	42,071	6,630
2020	215,000	107,875	42,926	5,774
2021-2025	1,210,000	402,975	199,702	16,022
2026-2030	1,165,000	127,710	98,492	2,982
Total	\$ 3,385,000	\$ 1,135,885	\$ 504,470	\$ 56,230

RCW 39.36 limits the amount of general obligation debt that the Port may issue. Bond indebtedness without a vote is limited to .25% of the assessed value of the taxable property in the Port District.

At December 31, 2015, the Port's assessed value and limitation of unvoted general obligation debt are as follows:

Total Taxable Property Value	\$ 9,331,431,319
General Purpose Indebtedness Available Without a Vote	\$ 23,328,578
Indebtedness Incurred	3,872,230
Margin of Indebtedness Available Without a Vote	\$ 19,456,348

Bonds are displayed net of discount. Annual interest expense is increased by the amortization of bond insurance and discount.

At December 31, 2015, the Port had \$17,239 in assigned funds for payment of bond indebtedness.

The Port issued \$4,425,000 General Obligation Bonds on September 30, 2009 to purchase a waterfront parcel adjacent to the Bremerton marina to be used for parking for \$3,500,000. The remaining bond proceeds, which are invested in the State of Washington Local Government Investment Pool, have been used for the Port Orchard marina park expansion and the Water Street boat launch as approved by the Port Commission. After issue costs of \$123,032 for underwriting, rating, insurance, legal and other issue costs, the Port received proceeds of \$4,301,968. An Aa2 rating was assigned by Moody's Investment Service at the time the bonds were issued. The bonds are to be paid from an assigned portion of the regular property tax levy.

These bonds are subject to federal arbitrage regulations. The Port is required to comply with certain requirements of the Internal Revenue Code of 1986, after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with arbitrage rebate requirements to the extent applicable to the Bonds. The Port has covenanted in the Bond Resolution to comply with those requirements, but if the Port fails to comply, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. During this audit period arbitrage is not applicable.

**B. Operating Leases**

The Port leases office space in the Norm Dicks Government Center from the Kitsap County Housing Authority (KCCHA) under a noncancelable operating lease. The KCCHA sublease for 73.3% of the space was cancelled effective October 6, 2009 as a condition of the waterfront property purchase from KCCHA. In 2011 KCCHA entered into a 3 year sublease with two, three year extensions. The total lease cost in 2015 was \$17,088 (net of \$14,392 paid by KCCHA).

The Port executed a 10 year lease on a newly constructed 24,000 square foot building in the Olympic View Business Park, taking possession of the building in January, 2008. The lease is expressly conditioned and contingent upon a 65 year lease for the 3 acre real property upon which the building stands. The Port subleased a portion of the building to a defense contractor in 2009 and leased the remainder of the facility to them at the end of 2011. The total lease cost to the Port in 2015 was \$260,247.

The Port leases other office equipment under operating leases that expire in 2019, with a total lease cost in 2015 of \$6,511.

The Port holds five long-term Washington State Department of Natural Resource (DNR) land leases. The leases call for initial lease payments of \$55,556, adjusted annually by the Consumer Price Index – All Urban Consumers for the Seattle-Everett region, except for each four years when the non water-dependent annual rent will be revalued to reflect the then-current fair market value. The land leases are:

<b>Land Leases</b>				
December 31, 2015				
LESSOR	DATE OF LEASE	LEASE NUMBER	ANNUAL RENT	LAND RENTED
Dept of Natural Resources	9/1/11	2235A	\$ 16,110	Port Orchard Marina
Dept of Natural Resources	9/1/11	9891	26,566	P.O. Marina Parking
Dept of Natural Resources	9/1/11	2234	3,920	Port Orchard Area North of Old Post Office
Dept of Natural Resources	9/1/11	2736	7,784	Bremerton
Dept of Natural Resources	1/1/06	2544	1,176	Water St Boat Ramp
Total			\$55,556	

The future minimum lease payments for these leases are as follows:

Year Ending December 31	KCCHA Lease	Olympic View Lease	Office Equipment	Land Leases	Total
2016	32,532	259,491	5,888	54,380	352,291
2017	33,835	259,491	2,740	54,380	350,446
2018	35,112	10,812	1,421	54,380	101,725
2019	36,293		474	54,380	91,147
2020	36,587			54,380	90,967
2021-2025	183,171			209,914	393,085
2026-2030	183,421			139,070	322,491
2031-2035	152,049			139,070	291,119
2036-2040				139,070	139,070
2041				18,542	18,542
<b>Total</b>	<b>\$693,000</b>	<b>\$529,794</b>	<b>\$ 10,523</b>	<b>\$ 917,566</b>	<b>\$ 2,150,883</b>

C. Property Leases

The Port leases industrial properties on a long term basis and are reported as property rentals. Port procedure is to negotiate all leases at fair market value, considering market conditions, economic factors, property condition and location, as well as other factors that may impact negotiating lease pricing. The following is a schedule of future minimum rental income under non-cancelable leases having an initial term in excess of one year.

Year Ending December 31	Minimum Rental Income
2016	\$ 1,425,435
2017	1,117,127
2018	597,880
2019	556,556
2020	467,023
2021-2025	1,820,596
2026-2030	1,553,713
2031-2035	1,119,462
2036-2040	660,385
2041-2045	612,679
Thereafter	1,513,303
<b>Total Minimum Future Rents</b>	<b>\$11,444,159</b>



**D. Changes in Long-Term Liabilities**

During the year ended December 31, 2015, the following changes occurred in long-term liabilities:

	Beginning Balance 1/01/15	Additions	Reductions	Ending Balance 12/31/15	Due Within One Year
Bonds payable:					
L.T.G.O. Bonds	\$ 3,570,000	\$ 0	\$ 185,000	\$ 3,385,000	\$ 190,000
Deferred Discount	<u>12,689</u>	<u>0</u>	<u>860</u>	<u>11,829</u>	
Total Bonds Payable	\$ 3,557,311	\$ 0	\$ 184,140	\$ 3,373,171	
Loans/Notes Payable	543,314	0	38,845	504,470	39,624
Compensated Absences	<u>183,993</u>	<u>193,330</u>	<u>181,475</u>	<u>195,848</u>	111,323
Total Long Term Liabilities	\$ 4,284,618	\$ 193,330	\$ 404,460	\$ 4,073,489	

**NOTE 10 – RESTRICTED COMPONENT OF NET POSITION**

The Port’s statement of net position reports no restricted component of net position.

**NOTE 11 – 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. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Port management believes that such disallowances, if any, will not be significant.

As a result of contractor malfeasance, the Port is seeking reimbursement for damages incurred involving the construction of Port facilities. Reimbursement is expected to come from restitution in a criminal case involving the contractor in question as well as a judgment in connection with a civil action brought by the Port against the contractor. Additionally, the Port seeks relief from the federal bankruptcy proceedings initiated by

the contractor in question. The total obligation owing to the Port is \$287,068 of which approximately \$1,968 has been collected.

**NOTE 12 – POLLUTION REMEDIATION OBLIGATIONS**

In November 2006, the Government Accounting Standards Board issued GASB No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2007.

The Port purchased a waterfront property in 2009, which has known underground contaminants, resulting from the presence of former underground storage tanks. The site is listed by the Department of Ecology as a Voluntary Cleanup Site. The governmental agencies having jurisdiction over the property are not requiring remediation of the site or removal of contaminated soil at this time, but such action will likely be required in the future if the property is developed. There has been no obligating event to require recording a pollution remediation obligation on the financial statements. At the time of purchase of the property, it was estimated between \$210,000 and \$390,000 for remediation cleanup. The Port assumed all costs from the seller with regard to environmental clean-up.

**NOTE 13 – ACCOUNTING AND REPORTING CHANGES**

In 2015, the Port implemented GASB Statement 68 – Accounting and Financial Reporting for Pensions. The GASB also issued Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date (amends GASB 68). An Amendment of GASB Statement No. 27 (Issued 06/12) – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington state Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The implementation required the restatement of net position. The total adjustment is \$1,374,139, which restated the December 31, 2014 Statement of Net Position to \$78,425,706.

**NOTE 14 – UNIQUE AND UNUSUAL TRANSACTIONS**

Major Receivables

In 2015, 25% of the operating revenues or \$398,645 charged for property lease/rental income was billed to a manufacturing company for several land and facility leases. Effective July 1, 2015 the Port renegotiated these leases downward by \$220,257 in the first year in order to retain the customer at the Port, its 300 jobs and to prevent potential vacancy of three manufacturing facilities and two outdoor acreage leases from occurring had the tenant relocated to another area. The Port will recover a substantial amount of the reduction gradually over a five year period if all options as provided in the leases are exercised.

Port of Bremerton												
Schedule of Employer Contributions												
PERS 1												
As of December 31, 2015												
Last 10 Fiscal Years*												
	2015	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX
Statorily or contractually required contributions	\$ 110,429											
Contributions in relation to the statorily or contractually required contributions	\$ (110,429)											
Contribution deficiency (excess)	\$ -											
Covered employer payroll	\$ -											
Contributions as a percentage of covered employee payroll	0											
<b>Notes to Schedule:</b>												
* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.												

Port of Bremerton												
Schedule of Employer Contributions												
PERS 2/3												
As of December 31, 2015												
Last 10 Fiscal Years*												
	2015	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX
Statorily or contractually required contributions	\$ 127,184											
Contributions in relation to the statorily or contractually required contributions	\$ (127,184)											
Contribution deficiency (excess)	\$ -											
Covered employer payroll	\$ 1,608,804											
Contributions as a percentage of covered employee payroll	7.91%											
<b>Notes to Schedule:</b>												
* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.												

Port of Bremerton  
 Required Supplementary Information  
 December 31, 2015

**Introduction**

The Port of Bremerton is presenting Required Supplementary Information (RSI) to meet the minimum financial reporting requirements and is an integral part of the accompanying financial statements. RSI generally includes schedules, statistical data, and other information.

Port of Bremerton													
Schedule of Proportionate Share of the Net Pension Liability													
PERS 1													
As of June 30, 2015													
Last 10 fiscal Years*													
		2015	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset)	%	0.013424%											
Employer's proportionate share of the net pension liability	\$	702,200											
TOTAL	\$	702,200											
Employer's covered employee payroll	\$	0											
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	0											
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%											
<b>Notes to Schedule:</b>													
* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.													

Port of Bremerton													
Schedule of Proportionate Share of the Net Pension Liability													
PERS 2/3													
As of June 30, 2015													
Last 10 Fiscal Years*													
		2015	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset)	%	0.017343%											
Employer's proportionate share of the net pension liability	\$	619,675											
TOTAL	\$	619,675											
Employer's covered employee payroll	\$	1,538,761											
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	40.27%											
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%											
<b>Notes to Schedule:</b>													
* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.													

**Port of Bremerton  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Passed through to Subrecipients	
				Total			
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0007-26	-	14,546	-	1,2
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0007-29	-	24,083	-	1,2
Federal Aviation Administration (faa), Department Of Transportation	Airport Improvement Program	20.106	3-53-0007-30	-	58,662	-	1,2
<b>Total CFDA 20.106:</b>				-	<b>97,291</b>	-	
<b>Highway Planning and Construction Cluster</b>							
Federal Highway Administration (fhwa), Department Of Transportation	Highway Planning and Construction	20.205	STPUS- D185(002)/LA- 7386	-	1,800,647	-	1,2
<b>Total Highway Planning and Construction Cluster:</b>				-	<b>1,800,647</b>	-	
<b>Total Federal Awards Expended:</b>				-	<b>1,897,938</b>	-	

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

### NOTE 1 - Basis of Accounting

This schedule is prepared on the same basis of accounting as the Port of Bremerton's financial statements. The Port uses the Budgeting, Accounting and Reporting System for Port Districts in the State of Washington.

### NOTE 2 - Program Costs

The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including the Port's portion, may be more than shown.

## ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>