



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Financial Statements Audit Report**  
**Port of Bremerton**  
**Kitsap County**

**For the period January 1, 2016 through December 31, 2016**

**Published November 20, 2017**

**Report No. 1020196**





**Office of the Washington State Auditor  
Pat McCarthy**

November 20, 2017

Board of Commissioners  
Port of Bremerton  
Bremerton, Washington

**Report on Financial Statements**

Please find attached our report on the Port of Bremerton's financial statements.

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

## TABLE OF CONTENTS

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 .....	4
Independent Auditor’s Report On Financial Statements .....	6
Financial Section.....	9
About The State Auditor’s Office.....	50

**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, 2016 through December 31, 2016**

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, 2016, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated November 8, 2017.

**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.



Pat McCarthy

State Auditor

Olympia, WA

November 8, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Port of Bremerton Kitsap County January 1, 2016 through December 31, 2016**

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, 2016, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 9.

#### **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, 2016, 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.

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2017 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.



Pat McCarthy

State Auditor

Olympia, WA

November 8, 2017

## **FINANCIAL SECTION**

**Port of Bremerton  
Kitsap County  
January 1, 2016 through December 31, 2016**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2016

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2016

Statement of Revenues, Expenses and Changes in Net Position – 2016

Statement of Cash Flows – 2016

Notes to Financial Statements – 2016

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of Net Pension Liability – PERS 1 – 2016

Schedule of Proportionate Share of Net Pension Liability – PERS 2/3 – 2016

Schedule of Employer Contributions – PERS 1 – 2016

Schedule of Employer Contributions – PERS 2/3 – 2016

# MANAGEMENT'S DISCUSSION AND ANALYSIS

**Year ended December 31, 2016**

## 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, 2016 and 2015. It provides an introduction to the Port's 2016 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 \$81.4 million (reported as total net position) at the close of 2016 and by \$80.5 million in 2015. Of this amount, \$61.6 million in 2016 and \$62.7 million in 2015 are invested in capital assets, net of related debt.
- The Port's net position increased in 2016 over 2015 by \$888,299 compared to the increase in 2015 of \$699,809. The 2016 increase reflects the increase in cash investments.
- The Port's long-term debt decreased by \$234,017 in 2016 and by \$229,317 in 2015. Both 2016 and 2015 decreases resulted from debt payments on the bonds and loans.
- Operating revenues for 2016 and 2015 totaled \$3,628,473 and \$3,676,610 respectively.
- Operating expenses totaled \$7,752,627 for 2016 and \$7,322,126 for 2015.

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

	2016	2015
<b>Assets:</b>		
Current assets	\$19,622,794	\$17,642,016
Restricted assets	325,478	305,481
Net capital assets	65,275,465	66,586,596
Non-current assets	2,499,905	2,599,905
<b>Total assets</b>	<b>\$87,723,642</b>	<b>\$87,133,998</b>
Total Deferred Outflows of Resources	301,011	195,091
<b>Liabilities:</b>		
Current liabilities	\$ 1,511,650	\$1,571,184
Long-term liabilities	3,498,519	3,732,536
Net pension liabilities	1,596,719	1,321,874
<b>Total liabilities</b>	<b>\$ 6,606,888</b>	<b>\$ 6,625,594</b>
Total Deferred Inflows of Resources	29,812	203,841
Net position:		
Investment in capital assets	\$61,626,589	\$62,708,956
Restricted for capital projects	0	0
Unrestricted net position	19,761,364	17,790,698
<b>Total net position</b>	<b>\$81,387,953</b>	<b>\$80,499,654</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 2016 operating results:

**Revenues:** In 2016 operating revenues decreased by \$26,791. This reflects a decrease in Rental Operations less increase in Marina. The Port is continuing to achieve increased occupancy in the Bremerton marina.

**Expenses:** 2016 operating expenses increased by \$413,532. This reflects an increase in Maintenance and General Administration.

**Non-Operating:** 2016 non-operating revenues were \$1,115,646 over budget (31.1%), due to gain on sale of Annapolis Pier, with other non-operating expenses of \$47,964 (25.0%) under budget. In 2015, non-operating revenues were \$201,426 over budget (5.73%) with non-operating expenses \$23,542 (11.94%) under budget.

Capital contributions were down to \$457,710 in 2016, as a result of 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:**

	2016	2015
<b>Operating Revenues</b>		
Airport operations	\$ 246,897	\$ 241,543
Marina operations	2,328,470	2,260,846
Property lease/rental operations	1,494,452	1,594,221
Other		
<b>Total operating revenues</b>	<b>4,069,819</b>	<b>4,096,610</b>
<b>Non-operating Revenues</b>		
Ad valorem tax revenues	3,542,220	3,522,552
Investment income	83,338	28,001
Other non-operating income	1,064,518	166,062
<b>Total non-operating revenues</b>	<b>4,690,076</b>	<b>3,716,615</b>
<b>Total revenues</b>	<b>8,759,895</b>	<b>7,813,225</b>

<b>Operating Expenses</b>		
General operations	4,235,858	4,126,419
Maintenance	245,642	204,538
General and Administrative	756,606	575,590
Depreciation	2,955,867	2,835,579
Non-operating expenses	143,913	173,647
<b>Total expenses</b>	<b>8,329,305</b>	<b>7,915,773</b>
<b>Change in Net Position</b>	<b>430,589</b>	<b>(102,548)</b>
Capital contributions	457,710	2,176,496
<b>Change in Fund Net Position</b>	<b>\$888,299</b>	<b>\$2,073,948</b>
Total Net Position - Beginning	<b>80,499,654</b>	<b>79,799,845</b>
Change in Accounting Principle		(1,374,139)
Prior period adjustment		
<b>Total Net Position - Ending</b>	<b>\$81,387,953</b>	<b>\$80,499,654</b>

The Port's overall financial position has improved in 2016, reflecting increased marina operational revenue, while keeping operating expenses relatively constant.

**CAPITAL ASSETS:**

The Port's capital asset investment at the end of 2016 is \$65,275,465, net of accumulated depreciation and \$66,586,596 for 2015. Capital assets consist of land, buildings, machinery and equipment, and construction in progress. Capital assets remained nearly flat in 2016. 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, 2016 of \$3,195,000 compared to \$3,385,000 in 2015.

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, 2016 and 2015 respectively were \$201,781 and \$224,012. Funds from a low interest \$364,471 CERB loan were received for investment in infrastructure at the Bremerton National Airport, with outstanding balances of \$263,065 and \$280,458 for 2016 and 2015 respectively. Refer to Note 9 of the Notes to Financial Statements.

**2017 BUDGET:**

The Port's 2017 budget anticipates Operating Revenues will be \$120,267 below comparable operations for 2016, while operating expenses are budgeted to slightly increase \$151,475 from 2016.

In 2017, \$ 1,882,576 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.

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.

The Port of Bremerton anticipates a productive year in 2017 as we continue to maintain our focus on Port facility repairs, infrastructure upgrades and continued work on the projects that benefit our community. In our efforts to improve efficiencies and prepare for growth, we will concentrate efforts on organizational structure and systems upgrades.

**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, 2016**

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents (Note 1 and 2)	\$	18,829,575
Restricted assets:		
Cash and cash equivalents (Note 1 and 2)		325,478
Taxes receivable (Note 3)		159,383
Accounts receivable (net of allowance for uncollectibles) (Note 1)		80,465
Due from other governments - current portion (Note 1 and 5)		100,000
Other receivables		69,397
Inventory (Note 1)		49,249
Prepaid expenses		334,725
<b>TOTAL CURRENT ASSETS</b>		<b>19,948,272</b>

**NON-CURRENT ASSETS:**

**Capital assets not being depreciated (Note 4)**

Land		7,139,949
Construction in progress		867,157

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

Buildings and structures		40,099,936
Machinery and equipment		2,097,865
Marina and other improvements		57,692,837
Less: Accumulated depreciation		(42,622,278)
<b>Total Net Capital Assets</b>		<b>65,275,465</b>

**Other Non-Current Assets**

Due from other governments - Long term portion (Note 1 and 5)		2,499,905
---	--	-----------

<b>TOTAL OTHER NON-CURRENT ASSETS</b>		<b>2,499,905</b>
---------------------------------------	--	------------------

<b>TOTAL NONCURRENT ASSETS</b>		<b>67,775,370</b>
--------------------------------	--	-------------------

<b>TOTAL ASSETS</b>	<b>\$</b>	<b>87,723,642</b>
---------------------	-----------	-------------------

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows - Pensions (Note7)	<b>\$</b>	<b>301,011</b>
<b>Total Deferred Outflows of Resources</b>		<b>301,011</b>

The Accompanying Notes are an Integral Part of this Statement

**PORT OF BREMERTON**  
**Statement of Net Position**  
**December 31, 2016**

**LIABILITIES**

**CURRENT LIABILITIES:**

Warrants payable	\$	217,842
Accounts payable		185,444
Accrued expenses		344,166
Unearned revenue		80,121
Accrued interest payable		18,911
Payable from restricted assets (customer deposits)		325,478
Current portion of long-term liabilities (Note 9)		339,688
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,511,650</b>

**NON-CURRENT LIABILITIES:**

General obligation bonds (Note 9)		2,989,031
CERB loans (Note 9)		424,425
Employee leave benefits (Note 1)		85,063
Net Pension Liability		1,596,719
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>5,095,238</b>

**TOTAL LIABILITIES**

**\$ 6,606,888**

**DEFERRED INFLOWS OF RESOURCES**

Total Deferred Inflows - Pension		29,812
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>		<b>29,812</b>

**NET POSITION:**

Net investment in capital assets		61,626,589
Unrestricted		19,761,364
<b>TOTAL NET POSITION</b>	<b>\$</b>	<b>81,387,953</b>

The Accompanying Notes are an Integral Part of this Statement

**PORT OF BREMERTON**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For Year Ended December 31, 2016**

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

**OPERATING REVENUES:**

Airport operations	\$ 246,897
Marina operations	2,328,470
Property lease/rental operations	1,494,452
<b>Total Operating Revenues</b>	<b>4,069,819</b>

**OPERATING EXPENSES:**

General operations	4,235,858
Maintenance	245,642
General and administrative	756,606
Depreciation (Note 4)	2,955,867
<b>Total Operating Expenses</b>	<b>8,193,973</b>

**Operating Income (Loss)** **(4,124,154)**

**NONOPERATING REVENUES (EXPENSES):**

Investment income	83,338
Taxes levied for:	
General purposes (Note 3)	3,222,569
Debt service principal/interest (Note 3)	319,651
Gain (loss) on disposition of assets	942,545
Interest expense	(135,333)
Other nonoperating revenues (expenses)	121,973
<b>Total Non-Operating Revenues (Expenses)</b>	<b>4,554,743</b>

**Income (loss) before other revenues, expenses, gains, losses  
and transfers** **430,590**

**Capital contributions** **457,710**

**Increase (decrease) in Net Position** **\$ 888,299**

**Net Position as of January 1** **\$ 80,499,654**

**Net Position as of December 31** **\$ 81,387,953**

The Accompanying Notes are an Integral Part of this Statement

**Port of Bremerton  
Statement of Cash Flows  
For the year ended December 31, 2016**

	<b><u>2016</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 4,236,696
Cash paid to suppliers for goods and services	(3,679,492)
Cash paid to employees for services	(1,734,625)
<b>Net cash used by operating activities</b>	<b><u>(1,177,420)</u></b>
 <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Property tax receipts	3,248,837
Misc. Non-operating revenues	130,554
Misc. Non-operating expenses	(300)
<b>Net cash provided (used) by non-capital financing activities</b>	<b><u>3,379,091</u></b>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Property tax receipts for capital assets	319,651
Receipts from Capital Asset Sale	1,042,546
Acquisition and construction of capital assets	(1,642,503)
Capital Contributions	616,228
Principal paid on bonds	(228,220)
Interest paid on bonds	(144,845)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b><u>(37,143)</u></b>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received on investments	<u>83,338</u>
 <b>Net increase (decrease) in cash and cash equivalents</b>	 <b>2,247,866</b>
 <b>CASH AND CASH EQUIVALENTS</b>	
Beginning of year	<u>16,907,187</u>
<b>End of year</b>	<b><u><u>19,155,053</u></u></b>

The Accompanying Notes are an Integral Part of this Statement

**RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES**

Net income (loss) from operations	\$ (4,124,154)
Adjustment to reconcile net operating income (loss) to net cash provided by operating activities:	
Depreciation	2,955,867
(Increase) decrease in accounts receivable (net)	148,165
(Increase) decrease in marina inventory	(17,210)
(Increase) decrease in prepayments	(68,654)
Increase (decrease) in warrants payable	134,216
Increase (decrease) in accounts payable	(159,064)
Increase (decrease) in customer deposits	18,712
Increase (decrease) in accrued expenses	(65,298)
Net Cash From (Used by) Operating Activities	<u>(1,177,420)</u>

The Accompanying Notes are an Integral Part of this Statement

## **PORT OF BREMERTON**

Notes to Financial Statements

January 1, 2016 through December 31, 2016

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.

#### **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 financial 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, 2016, the Port was holding \$18,829,575 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 Kitsap Bank in lieu of payments for services rendered. The average compensating balances maintained during 2016 were approximately \$806,058.

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, 2016.

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 \$2,599,905. 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>325,478</u>
Total Restricted Assets	\$ 325,478

Only customer deposits are shown with a related liability.

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

8. 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.

9. Other Accrued Liabilities

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

10. 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.

11. 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.

12. 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, 2016, 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	\$18,897,023
----------------------------------	--------------

All temporary investments are stated at amortized 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.

**FAIR MARKET VALUE.** Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. GASB 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. This hierarchy has three levels:

Level 1 - Pricing inputs are observable inputs such as quoted prices, available in active markets, for identical assets on the measurement date.

Level 2 - Pricing inputs are either directly or indirectly observable inputs available in active markets as of the measurement date.

Level 3 - Pricing inputs are unobservable inputs used in cases where financial instruments are considered illiquid, with no significant market activity and little or no pricing information on the date of measurement.

All investment balances as of December 31, 2016 are based on level 1 inputs. These short-term investments are considered cash equivalents and are not subject to risk categorization.

**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 2016 was \$.3819 per \$1,000 on an assessed valuation of \$9,329,092,949 for a total regular levy of \$3,561,823.

**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 acquisition 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, 2016, was as follows:

	BEGINNING ASSET BALANCE January 1, 2016	ADDITIONS	DELETIONS	ENDING ASSET BALANCE December 31, 2016
<b>Capital assets, not being depreciated:</b>				
Land	\$ 7,139,949	\$ 0	\$ 0	\$ 7,139,949
Construction in progress	5,695,931	1,595,663	6,424,438	867,157
<b>Total capital assets, not being depreciated</b>	<b>12,835,880</b>	<b>1,595,663</b>	<b>6,424,438</b>	<b>8,007,107</b>
<b>Capital assets being depreciated:</b>				
Buildings & structures	39,736,649	668,126	304,839	40,099,936
Machinery and equipment	1,928,984	294,747	125,866	2,097,865
Marina and other improv.	52,107,104	5,587,672	1,939	57,692,837
<b>Total capital assets being depreciated</b>	<b>93,772,736</b>	<b>6,550,545</b>	<b>432,644</b>	<b>99,890,638</b>
<b>Less accumulated depreciation for:</b>				
Buildings & structures	19,323,659	1,118,024	299,954	20,141,729
Machinery and equipment	1,716,936	68,859	53,716	1,732,079
Marina and other improv.	18,981,426	1,768,985	1,939	20,748,472
<b>Total accumulated depreciation</b>	<b>40,022,020</b>	<b>2,955,868</b>	<b>355,609</b>	<b>42,622,280</b>
<b>Total capital assets, being depreciated, net</b>	<b>53,750,714</b>	<b>3,594,677</b>	<b>77,035</b>	<b>57,268,358</b>
<b>Total Net Capital Assets</b>	<b>\$66,586,594</b>	<b>5,190,340</b>	<b>6,501,473</b>	<b>\$65,275,464</b>

C. Construction Commitments

The Port has active construction projects as of December 31, 2016. At year-end the Port's commitments with contractors are as follows:

Project	Spent To Date	Remaining Commitment
Heartland Marketing/CERB Grant	\$ 59,693	15,307
POM Gate 3 Pillings	513	1,488
OVIPI UST Rmvl & Refurb	259,630	852
Airport Industrial Way-Gateway	19,487	4,050
Airport Industrial Way-Pad Sites	54,222	1,297
Admin Bldg HVAC	226,067	21,496
OVIPI 8 Upgrades Super Critical	1,900	850
BREM Marina Breakwater Moorage Plan	1,804	2,996
	\$623,315	\$ 48,336

Of the committed balance of \$48,336, 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
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	\$ 2,599,905

**NOTE 6 – 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 2016:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$1,596,719
Pension assets	\$ 0
Deferred outflows of resources	\$ 301,011
Deferred inflows of resources	\$29,812
Pension expense/expenditures	\$175,621

### 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 2016 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
<b>Total</b>	<b>11.18%</b>	<b>6.00%</b>

The Port’s actual contributions to the plan were \$78,370 for the year ended December 31, 2016.

**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 2016 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2</b>
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>11.18%</b>	<b>6.12%</b>

The Port’s actual contributions to the plan were \$102,356 for the year ended December 31, 2016.

**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 assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

### **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. 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 employers, whose rates include a component for the PERS 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, 2016, 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.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
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.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 874,488	\$ 725,175	\$ 596,682
PERS 2/3	1,604,671	871,545	(\$453,689)

**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, 2016, the Port’s reported a total pension liability of \$1,596,719 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$725,175
PERS 2/3	\$871,545

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

	<b>Proportionate Share 6/30/15</b>	<b>Proportionate Share 6/30/16</b>	<b>Change in Proportion</b>
PERS 1	.013424%	.013503%	.000079%
PERS 2/3	.017343%	.017310%	(.0000033%)

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*.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the year ended December 31, 2016, the Port recognized pension expense as follows:

	<b>Pension Expense</b>
PERS 1	\$ 42,873
PERS 2/3	\$ 132,748

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

At December 31, 2016, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PERS PLAN 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 0	\$ 0
Net difference between projected and actual investment earnings on pension plan investments	\$ 18,259	\$ 0
Changes of assumptions	\$ 0	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 0	\$ 0
Contributions subsequent to the measurement date	\$ 40,090	\$ 0
<b>TOTAL</b>	<b>\$ 58,349</b>	<b>\$ 0</b>

<b>PERS PLAN 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 46,409	\$ 28,771
Net difference between projected and actual investment earnings on pension plan investments	\$ 106,652	\$ 0
Changes of assumptions	\$ 9,008	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 28,232	\$ 1,041
Contributions subsequent to the measurement date	\$ 52,360	\$ 0
<b>TOTAL</b>	<b>\$ 242,661</b>	<b>\$ 29,812</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>
2017	(\$4,496)	\$12,040
2018	(\$4,496)	\$12,040
2019	\$16,769	\$85,927
2020	\$10,481	\$50,482

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 7 – 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 8 – 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	\$ 323,362

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
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	\$ 3,195,000	\$ 1,003,085	\$464,846	\$ 47,153

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, 2016, the Port’s assessed value and limitation of unvoted general obligation debt are as follows:

Total Taxable Property Value	\$ 10,309,508,024
General Purpose Indebtedness Available Without a Vote	\$ 25,773,770
Indebtedness Incurred	<u>3,195,000</u>
Margin of Indebtedness Available Without a Vote	\$ 22,578,770

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

At December 31, 2016, the Port had \$22,753 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 sublease expired in 2016 and was not renewed. The total lease cost in 2016 was \$26,535 (net of \$5,997 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 2016 was \$259,850.

The Port leases other office equipment under operating leases that expire in 2019, with a total lease cost in 2016 of \$5,888.

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, 2016				
LESSOR	DATE OF LEASE	LEASE NUMBER	ANNUAL RENT	LAND RENTED
Dept of Natural Resources	9/1/11	2235A	\$ 16,690	Port Orchard Marina
Dept of Natural Resources	9/1/11	9891	27,523	P.O. Marina Parking
Dept of Natural Resources	9/1/11	2234	4,061	Port Orchard Area North of Old Post Office
Dept of Natural Resources	9/1/11	2736	8,064	Bremerton
Dept of Natural Resources	1/1/06	2544	1,081	Water St Boat Ramp
Total			\$57,419	

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
2017	33,835	266,237	2,740	56,337	359,149
2018	35,112	10,812	1,421	56,337	103,682
2019	36,293		474	56,337	93,104
2020	36,587			56,337	92,924
2021	36,667			56,337	93,004
2022-2026	183,251			212,881	396,132
2027-2031	183,116			144,075	327,191
2032-2036	115,607			144,075	259,682
2037-2041				144,075	144,075
<b>Total</b>	<b>\$660,468</b>	<b>\$277,049</b>	<b>\$4,635</b>	<b>\$ 926,791</b>	<b>\$1,868,943</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
2017	1,190,659
2018	661,938
2019	615,143
2020	524,835
2021-2025	1,868,045
2026-2030	1,571,003
2031-2035	1,120,599
2036-2040	661,522
2041-2045	613,115
Thereafter	1,513,303
<b>Total Minimum Future Rents</b>	<b>\$10,340,162</b>

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

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

	Beginning Balance 1/01/16	Additions	Reductions	Ending Balance 12/31/16	Due Within One Year
Bonds payable:					
L.T.G.O. Bonds	\$ 3,385,000	\$ 0	\$190,000	\$ 3,195,000	\$ 195,000
Deferred Discount	<u>11,829</u>	<u>0</u>	<u>860</u>	<u>10,969</u>	
Total Bonds Payable	\$ 3,373,171	\$ 0	\$189,140	\$ 3,184,031	
Loans/Notes Payable	504,470	0	39,624	464,846	40,420
Compensated Absences	<u>195,841</u>	<u>212,650</u>	<u>219,160</u>	<u>189,331</u>	104,268
<b>Total Long Term Liabilities</b>	<b>\$ 4,073,482</b>	<b>\$ 212,650</b>	<b>\$ 447,924</b>	<b>\$ 3,838,208</b>	<b>\$ 339,688</b>

**NOTE 9 – RESTRICTED COMPONENT OF NET POSITION**

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

**NOTE 10 – CONTINGENCIES AND LITIGATION**

The Port has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the Port will have to make payment.

In the opinion of management, the Port's insurance policies are adequate to pay all known or pending claims. The Port participates in a number of federal and state-assisted programs. 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 \$2,446 has been collected.

**NOTE 11 – 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 12 – ACCOUNTING AND REPORTING CHANGES**

With this report, the Port implemented GASB 72 - Fair Value Reporting and GASB 79 – Investment Pools and Pool Participants.

**REQUIRED SUPPLEMENTARY INFORMATION**

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  
Washington State Public Employee Retirement Systems Plan 1

As of June 30

	<u>2015</u>	<u>2016</u>
Employer's proportion of the net pension liability (asset)	0.013424%	0.013503%
Employer's proportionate share of the net pension liability	\$ 702,200	\$ 725,175
Employer's covered employee payroll	\$ -	\$ -
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll		
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%

**Notes to Schedule:** This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Port of Bremerton

Schedule of Proportionate Share of the Net Pension Liability  
Washington State Public Employee Retirement Systems Plan 2 and 3

As of June 30

	<u>2015</u>	<u>2016</u>
Employer's proportion of the net pension liability (asset)	0.017343%	0.017310%
Employer's proportionate share of the net pension liability	\$ 619,675	\$ 871,545
Employer's covered employee payroll	\$1,538,761	\$1,612,489
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.27%	54.05%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%

**Notes to Schedule:** This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Port of Bremerton  
Schedule of Employer Contributions  
Washington State Employee Retirement Systems Plan 1  
As of December 31

	<u>2015</u>	<u>2016</u>
Statutorily or contractually required contributions	\$ 110,429	\$ 78,370
Contributions in relation to the statutorily or contractually required contributions	\$ (110,429)	\$ (78,370)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	\$ -	\$ -

Contributions as a percentage of covered employee payroll

**Notes to Schedule:** This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Port of Bremerton

Schedule of Employer Contributions  
Washington State Employee Retirement Systems Plan 2 and 3

As of December 31

	<u>2015</u>	<u>2016</u>
Statutorily or contractually required contributions	\$ 127,184	\$ 102,356
Contributions in relation to the statutorily or contractually required contributions	\$ (127,184)	\$ (102,356)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	\$1,608,804	\$1,642,963
Contributions as a percentage of covered employee payroll	7.91%	6.23%

**Notes to Schedule:** This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

## 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>