



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Port of Bremerton

For the period January 1, 2018 through December 31, 2019

Published April 8, 2021

Report No. 1028048



Find out what's new at SAO
by scanning this code with
your smartphone's camera



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

April 8, 2021

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

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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 the Financial Statements.....	7
Financial Section.....	11
About the State Auditor's Office.....	27

INDEPENDENT AUDITOR'S REPORT

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

Port of Bremerton January 1, 2018 through December 31, 2019

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, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Port's financial statements, and have issued our report thereon dated March 31, 2021.

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

As discussed in Note 7 to the 2018 financial statements, the Port has elected to change its method of accounting from generally accepted accounting principles to a special purpose framework during the year ended December 31, 2018.

As discussed in Note 9 to the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Port is unknown.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control.

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

Our consideration of internal control was for the limited purpose described 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 audits 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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

March 31, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Port of Bremerton January 1, 2018 through December 31, 2019

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, for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Port's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of the Port of Bremerton, and its changes in cash and investments, for the years ended December 31, 2019 and 2018, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the Port used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Port of Bremerton, as of December 31, 2019 and 2018, or the changes in financial position or cash flows thereof for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Matters of Emphasis

As discussed in Note 7 to the 2018 financial statements, the Port has elected to change its method of accounting from generally accepted accounting principles to a special purpose framework during the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

As discussed in Note 9 to the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Port is unknown. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2021 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 cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

March 31, 2021

FINANCIAL SECTION

Port of Bremerton January 1, 2018 through December 31, 2019

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2019
Fund Resources and Uses Arising from Cash Transactions – 2018
Notes to the Financial Statements – 2019
Notes to the Financial Statements – 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2019
Schedule of Liabilities – 2018

Port of Bremerton
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

Beginning Cash and Investments

30810	Reserved	3,251,137
30880	Unreserved	21,255,015
388 / 588	Net Adjustments	-

Revenues

310	Taxes	3,756,802
320	Licenses and Permits	-
330	Intergovernmental Revenues	97,275
340	Charges for Goods and Services	4,299,218
350	Fines and Penalties	-
360	Miscellaneous Revenues	947,898
Total Revenues:		9,101,193

Expenditures

540	Transportation	6,385,003
Total Expenditures:		6,385,003
Excess (Deficiency) Revenues over Expenditures:		2,716,190

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	624,976
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	518,903
381, 382, 395, 398	Other Resources	1,425
Total Other Increases in Fund Resources:		1,145,304

Other Decreases in Fund Resources

594-595	Capital Expenditures	3,121,931
591-593, 599	Debt Service	48,758
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	490,656
581, 582	Other Uses	-
Total Other Decreases in Fund Resources:		3,661,345

Increase (Decrease) in Cash and Investments:	200,149
---	----------------

Ending Cash and Investments

5081000	Reserved	3,978,367
5088000	Unreserved	20,727,934
Total Ending Cash and Investments		24,706,301

Port of Bremerton
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

Beginning Cash and Investments

30810	Reserved	2,544,386
30880	Unreserved	17,536,917
388 / 588	Net Adjustments	-

Revenues

310	Taxes	3,716,730
320	Licenses and Permits	-
330	Intergovernmental Revenues	628,066
340	Charges for Goods and Services	4,409,973
350	Fines and Penalties	-
360	Miscellaneous Revenues	540,769
Total Revenues:		9,295,538

Expenditures

540	Transportation	5,600,906
Total Expenditures:		5,600,906
Excess (Deficiency) Revenues over Expenditures:		3,694,632

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	624,976
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	578,862
381, 382, 395, 398	Other Resources	4,490,328
Total Other Increases in Fund Resources:		5,694,166

Other Decreases in Fund Resources

594-595	Capital Expenditures	1,439,564
591-593, 599	Debt Service	3,123,764
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	400,621
Total Other Decreases in Fund Resources:		4,963,949

Increase (Decrease) in Cash and Investments: 4,424,849

Ending Cash and Investments

5081000	Reserved	3,251,137
5088000	Unreserved	21,255,015
Total Ending Cash and Investments		24,506,152

Port of Bremerton
Notes to the Financial Statements
For the year ended December 31, 2019

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

The Port of Bremerton reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) This basis of accounting and reporting is an *Other Comprehensive Basis of Accounting* (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

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

A. Fund Accounting

The accounts of the Port of Bremerton are organized on the basis of funds. For reporting purposes, the activities of all the Port of Bremerton's funds are combined. Each fund is accounted for with a separate set of double-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The Port of Bremerton's resources are allocated to and accounted for in one fund. The Port's General Fund is the primary operating fund of the Port. It accounts for all of the Ports financial resources.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid. Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents an *Other Comprehensive Basis of Accounting* rather than accounting principles generally accepted in the United States of America.

C. Cash and Investments

See Note 2, Cash and Investments.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 3 years. The capital assets of the Port of Bremerton are recorded as expenditures when purchased.

E. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The Port records vacation and sick leave as an expenditure when paid.

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.

F. Long Term Debt

See Note 8, Debt Service Requirements.

G. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the board of commissioners. When expenditures that meet restrictions are incurred, the District intends to use reserved resources first before using unreserved amounts.

The Port reports ending restricted cash of \$3,499,142 for stormwater capital reserves. Per an interlocal agreement with the City of Bremerton, the Port receives a discount on stormwater fees in exchange for setting aside the amount of the discounts for future stormwater capital projects. These funds must be used on stormwater projects approved by the City of Bremerton. In addition, the Port reports customer deposits of \$479,225.

Note 2 – Deposits and Investments

Cash on hand at December 31, 2020 was \$1,250. The carrying amount of the Port's deposits was \$24,705,051, and the bank balance was \$25,181,857.

Custodial Credit Risk

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

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

It is the Port's policy to invest all temporary cash surpluses. The amount of investments is included in the cash and investments shown on the Statements of Fund Resources and Uses Arising from Cash Transactions.

Investments in the Washington Local Government Investment Pool are reported at amortized cost. The Port had \$23,814,835 invested in the pool at December 31, 2019.

Note 3 - Property Tax

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

Property tax revenues are recognized when cash is received by Port. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Port's regular levy for the year 2019 was \$0.294305 per \$1,000 on an assessed valuation of \$12,763,031,864 for a total regular levy of \$3,756,225. The Port also levies for bonds at a rate of \$0.001447 per \$1,000 for an additional total bond levy of \$18,468.

Washington State Constitution and Washington State law, RCW 84.55.010, limits the rate.

Note 4 – Contingencies and Litigation

The Port has reported on Schedule 09 all legally enforceable material liabilities, including an estimate for situations which are not yet resolve 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 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.

Note 6 – Pension Plans

A. State Sponsored Pension Plans

Substantially all the of the Port's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans (PERS 1 and 2/3).

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

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available 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

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2019 (the measurement date of the plans), the Port's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation Percentage*	Ending Balance 12/31/2019
PERS 1	\$ 94,944	0.013610%	\$ 523,353
PERS 2/3	147,689	0.017567%	170,635
	<u>\$ 242,633</u>		<u>\$ 693,988</u>

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, comprising 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 limits, 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 \$49 million over the first \$1 million of loss. Public Officials and Employment Practices Liability coverage is in effect to a limit of \$5,000,000 with a \$25,000 retention. Airport liability coverage of \$20 million is in place, with no deductible. Commercial property coverage with a loss limit of \$100 million is in effect with a deductible of \$25,000. The Commercial property coverage also includes \$100 million of Boiler and Machinery, and \$30 million of earthquake and flood, subject to various deductibles. In additions, the Port maintains standard business automobile, skiff, crime and cyber liability 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 – Debt Service Requirements

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Port and summarizes the Port's debt transactions for year ended December 31, 2019.

The debt service requirements for the Port's loans are as follows:

	Principal	Interest	Total Requirements
2020 \$	42,926	\$ 5,774	\$ 48,700
2021	43,802	4,898	48,700
2022	44,700	4,000	48,700
2023	45,618	3,082	48,700
2024	46,562	2,139	48,701
2024-2029	104,964	4,328	109,292
2030	12,548	608	13,156
\$	<u>341,120</u>	<u>\$ 24,829</u>	<u>\$ 365,949</u>

Note 9 - Other Disclosures

Construction Commitments

The Port has various construction projects in progress, which include the following construction commitments outstanding as of December 31, 2019:

<u>Project</u>	<u>Commitment</u>
Wedge Lot Development Project	\$ 2,149,505
NE Campus 2 Building	854,228
AIP #33 Airfield Lighting	242,138

Pollution Remediation

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 reporting a pollution remediation obligation on the Schedule 9. At the time of purchase of the property, the cost was estimated to be between \$210,000 and \$390,000 for remediation cleanup. Per the purchase agreement, the Port is limited to \$50,000 liability for any cleanup cost.

Related Parties

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.

Subsequent Event

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

The Port has closed its offices to the public and instituted staggered and remote work practices for its employees. Lease revenues and fuel sales were not significantly affected by the restrictions; likewise, Port operating expenses were similar to 2019. Port construction projects were not impacted.

The length of time these measures will continue to be in place, and the full extent of the direct or indirect financial impact on the Port is unknown at this time.

Port of Bremerton
Notes to the Financial Statements
For the year ended December 31, 2018

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

The Port of Bremerton reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) This basis of accounting and reporting is an *Other Comprehensive Basis of Accounting* (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

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

A. Fund Accounting

The accounts of the Port of Bremerton are organized on the basis of funds. For reporting purposes, the activities of all the Port of Bremerton's funds are combined. Each fund is accounted for with a separate set of double-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The Port of Bremerton's resources are allocated to and accounted for in one fund. The Port's General Fund is the primary operating fund of the Port. It accounts for all of the Ports financial resources.

B. Basis of Accounting and Measurement Focus

Basis of accounting refers to the timing of recognition of revenues and expenditures in the accounts and reporting in the financial statements. Revenues are recognized when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents an *Other Comprehensive Basis of Accounting* rather than accounting principles generally accepted in the United States of America.

C. Cash and Investments

It is the Port's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the Statements of Fund Resources and Uses Arising from Cash Transactions. The Port's deposits are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

Investments in the Washington Local Government Investment Pool are reported at amortized cost. The Port had \$22,774,165 invested in the pool at December 31, 2018.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 3 years. The capital assets of the Port of Bremerton are recorded as expenditures when purchased.

E. Compensated Absences

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

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.

F. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the board of commissioners. When expenditures that meet restrictions are incurred, the District intends to use reserved resources first before using unreserved amounts.

The Port reports ending restricted cash of \$2,812,277 for stormwater capital reserves. Per an interlocal agreement with the City of Bremerton, the Port receives a discount on stormwater fees in exchange for setting aside the amount of the discounts for future stormwater capital projects. These funds must be used on stormwater projects approved by the City of Bremerton. In addition, the Port reports customer deposits of \$438,860.

Note 2 - Property Tax

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

Property tax revenues are recognized when cash is received by Port of Bremerton. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Port's regular levy for the year 2018 was \$0.298062 per \$1,000 on an assessed valuation of \$11,269,478,911 for a total regular levy of \$3,359,007. The Port also levies for bonds at a rate of \$0.028927 for an additional total bond levy of \$326,000.

Washington State Constitution and Washington State law, RCW 84.55.010, limits the rate.

Note 3 – Contingencies and Litigation

The Port has reported on Schedule 09 all legally enforceable 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 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.

Note 5 – Pension Plans

A. State Sponsored Pension Plans

Substantially all the Port's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans (PERS 1 and 2/3).

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

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available 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

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2018 (the measurement date of the plans), the Port's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation Percentage*	Ending Balance 12/31/2018
PERS 1	\$ 82,643	0.012964%	\$ 578,977
PERS 2/3	122,415	0.016203%	276,652
	<u>\$ 205,058</u>		<u>\$ 855,628</u>

Note 6 – 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, comprising 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 limits, 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 \$49 million over the first \$1 million of loss. Public Officials and Employment Practices Liability coverage is in effect to a limit of \$5,000,000 with a \$25,000 retention. Airport liability coverage of \$20 million is in place, with no deductible. Commercial property coverage with a loss limit of \$100 million is in effect with a deductible of \$25,000. The Commercial property coverage also includes \$100 million of Boiler and Machinery, and \$30 million of earthquake and flood, subject to various deductibles. In additions, the Port maintains standard business automobile, skiff, crime and cyber liability 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.

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Port and summarizes the Port's debt transactions for year ended December 31, 2018.

The debt service requirements for the Port's loans are as follows:

	Principal	Interest	Total Requirements
2019 \$	42,071	\$ 6,629	\$ 48,700
2020	42,926	5,774	48,700
2021	43,802	4,898	48,700
2022	44,700	4,000	48,700
2023	45,618	3,082	48,700
2024-2028	123,798	5,691	129,489
2029-2032	40,276	608	40,884
\$	<u>383,191</u>	<u>\$ 30,682</u>	<u>\$ 413,873</u>

Note 7 - Other Disclosures

Pollution Remediation

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 reporting a pollution remediation obligation on the Schedule 9. At the time of purchase of the property, the cost was estimated to be between \$210,000 and \$390,000 for remediation cleanup. Per the purchase agreement, the Port is limited to \$50,000 liability for any cleanup cost.

Basis of Accounting

In 2018, the Port converted from GAAP (General Accepted Accounting Principles) basis to cash basis financial reporting as allowed by the Washington State Auditor's Office (SAO).

Related Parties

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.

**Port of Bremerton
Schedule of Liabilities
For the Year Ended December 31, 2019**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	Loans/Notes Payable	12/31/2030	383,191	-	42,071	341,120
	Total General Obligation Debt/Liabilities:		383,191	-	42,071	341,120
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		271,325	24,154	-	295,479
264.30	Net Pension Liability		855,628	-	161,640	693,988
	Total Revenue and Other (non G.O.) Debt/Liabilities:		1,126,953	24,154	161,640	989,467
	Total Liabilities:		1,510,144	24,154	203,711	1,330,587

**Port of Bremerton
Schedule of Liabilities
For the Year Ended December 31, 2018**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2009 GO Bond	12/31/2029	3,000,000	-	3,000,000	-
263.81	Loans/Notes Payable	12/31/2030	424,426	-	41,235	383,191
Total General Obligation Debt/Liabilities:			3,424,426	-	3,041,235	383,191
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		198,093	73,232	-	271,325
264.30	Net Pension Liability		1,200,250	-	344,622	855,628
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,398,343	73,232	344,622	1,126,953
Total Liabilities:			4,822,769	73,232	3,385,857	1,510,144

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

- [Find your audit team](#)
- [Request public records](#)
- Search BARS manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov