



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Port of Bremerton

For the period January 1, 2020 through December 31, 2020

Published February 17, 2022

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

February 17, 2022

Board of Commissioners
Port of Bremerton
Bremerton, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Port of Bremerton January 1, 2020 through December 31, 2020

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.106	Airport Improvement Program

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Finding 2020-001.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Port of Bremerton January 1, 2020 through December 31, 2020

2020-001 The Port did not have adequate internal controls for ensuring compliance with Davis-Bacon Act (prevailing wage rate) requirements.

CFDA Number and Title:	20.106, Airport Improvement Program
Federal Grantor Name:	Federal Aviation Administration
Federal Award/Contract Number:	AIP 3-53-0007-033-2019
Pass-through Entity Name:	N/A
Pass-through Award/Contract Number:	N/A
Questioned Cost Amount:	\$0

Background

The Federal Aviation Administration offers grant funding through the Airport Improvement Program for the purposes of planning, constructing, improving or repairing public-use airport facilities. In fiscal year 2020, the Port spent \$1,908,192 in program funds to upgrade its airport runway lighting system.

The Davis-Bacon Act (Act) requires contractors and subcontractors that work on projects financed with more than \$2,000 of federal money to pay laborers and mechanics prevailing wages—the wage rates the U.S. Department of Labor considers being similar to what local workers have been paid for similar projects. As part of prevailing wage rate requirements, contractors and subcontractors must submit to the Port weekly certified payroll reports, which includes copies of their payroll and signed “Statement of Compliance.” The Port’s project engineer may collect the weekly certified payroll reports for the Port during the project, but the Port remains responsible for complying with these requirements and keeping documents according to records retention schedules.

Description of Condition

The Port hired one contractor and a project engineer to upgrade the airport runway lighting system. During fiscal year 2020, the Port paid \$1,710,639 to the contractor and subcontractors for work they performed on the project. The Port did not have a monitoring process in place to ensure its contracted project engineer collected all weekly certified payroll reports. While the contracted project engineer had a process for collecting the weekly certified payroll reports from the contractor, he was not aware that he needed to collect weekly certified payroll reports from the subcontractors.

We consider this deficiency in internal controls to be a material weakness, which led to material noncompliance.

The issue was not reported as a finding in the prior audit.

Cause of Condition

Port staff relied on the contracted project engineer to collect timely certified payroll reports. Port employees were not aware they needed to monitor throughout the audit period to ensure the contracted project engineer collected all weekly certified payroll reports.

Additionally, Port officials attended a Washington State Department of Labor and Industries (L&I) training where they learned that the agency was collecting weekly certified payroll reports and entities were no longer responsible for this. The information in the training was about state prevailing wages, but Port officials misunderstood the training and thought it also applied to federal prevailing wage rate requirements.

Effect of Condition

For this project, the Port was required to collect a total of 36 weekly certified payroll reports—23 from the prime contractor and 13 from the subcontractors. The contracted project engineer collected all 23 weekly certified payroll reports from the prime contractor. However, because of a lack of monitoring and oversight, the Port did not detect that the contracted project engineer did not collect any of the 13 weekly certified payroll reports from the subcontractors. The Port subsequently obtained all 13 missing weekly certified payroll reports during our audit.

Without adequate internal controls, the Port cannot demonstrate it complied with the Davis-Bacon Act and paid workers prevailing wages. If the Port did not pay workers prevailing wages, it could be liable for paying additional wages.

Recommendation

We recommend the Port develop internal controls to ensure compliance with the Act's requirements, including implementing effective monitoring processes to ensure its contracted project engineer collects and reviews all certified payroll reports from contractors and subcontractors.

Port's Response

The Port of Bremerton appreciates the State Auditor's efforts and acknowledges the opportunity for improvement as outlined in the finding. The Port does have a process and procedure to require contractors and subcontractors pay prevailing wages and to collect certified payroll as a part of project close out, as required by the State of Washington. The Port has updated this process to further ensure weekly certified payrolls are collected for federal funded projects.

The total contracted amount for the project was \$2,039,522. The contract amount for the subcontractors was \$50,213. It is important to note that the percentage of the contract for subcontractors is 2.46%, which includes both labor and materials. When the certified payroll reports for all subcontractors were collected by the Port we were able to verify that prevailing wages were properly paid and this oversight did not have any financial impact on the Port. A corrective Action Plan has been put in place to ensure proper monitoring and oversight for future federally funded projects.

Auditor's Remarks

We appreciate the steps the Port is taking to resolve this issue. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303, Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 29 CFR, Section 3.3 – *Weekly statement with respect to payment of wages*, and Section 3.4 – *Submission of weekly statements and the preservation and inspection of weekly payroll records*, establish requirements for contractor or subcontractor submission of weekly certified payroll reports.

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, 2020 through December 31, 2020

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 year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Port's financial statements, and have issued our report thereon dated February 11, 2022.

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 9 to the 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 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 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 audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

February 11, 2022

INDEPENDENT AUDITOR'S REPORT

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

Port of Bremerton January 1, 2020 through December 31, 2020

Board of Commissioners
Port of Bremerton
Bremerton, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Port of Bremerton, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Port's major federal programs for the year ended December 31, 2020. The Port's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Port's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2020-001. Our opinion on each major federal program is not modified with respect to these matters.

Port's Response to Findings

The Port's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The Port's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over

compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

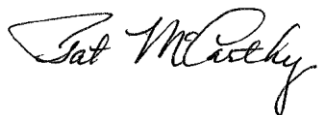
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2020-001, that we consider to be a material weakness.

Port's Response to Findings

The Port's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The Port's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

February 11, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Port of Bremerton January 1, 2020 through December 31, 2020

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 year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Port's financial statements, as listed on page 20.

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 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 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 year ended December 31, 2020, 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, 2020, or the changes in financial position or cash flows thereof for the year 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 9 to the 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 audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Liabilities is also 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 February 11, 2022 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 black ink, reading "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy, State Auditor

Olympia, WA

February 11, 2022

FINANCIAL SECTION

Port of Bremerton January 1, 2020 through December 31, 2020

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2020
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2020
Notes to the Financial Statements – 2020

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2020
Schedule of Expenditures of Federal Awards – 2020
Notes to the Schedule of Expenditures of Federal Awards – 2020

Port of Bremerton
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

Beginning Cash and Investments

308	Beginning Cash and Investments	24,706,301
388 / 588	Net Adjustments	(113,515)

Revenues

310	Taxes	3,835,640
320	Licenses and Permits	-
330	Intergovernmental Revenues	52,476
340	Charges for Goods and Services	4,596,871
350	Fines and Penalties	-
360	Miscellaneous Revenues	425,746
Total Revenues:		8,910,733

Expenditures

540	Transportation	5,783,288
Total Expenditures:		5,783,288
Excess (Deficiency) Revenues over Expenditures:		3,127,445

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	625,176
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	87,031
Total Other Increases in Fund Resources:		712,207

Other Decreases in Fund Resources

594-595	Capital Expenditures	8,885,436
591-593, 599	Debt Service	48,700
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	33,196
Total Other Decreases in Fund Resources:		8,967,332

Increase (Decrease) in Cash and Investments: **(5,127,680)**

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	4,780,279
50841	Committed	-
50851	Assigned	14,684,827
50891	Unassigned	-
Total Ending Cash and Investments		19,465,106

The accompanying notes are an integral part of this statement.

Port of Bremerton
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		Custodial
308	Beginning Cash and Investments	-
388 & 588	Net Adjustments	113,515
310-390	Additions	481,527
510-590	Deductions	481,752
	Net Increase (Decrease) in Cash and Investments:	(225)
508	Ending Cash and Investments	113,290

The accompanying notes are an integral part of this statement.

Port of Bremerton
Notes to the Financial Statements
For the year ended December 31, 2020

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 presented using classifications that are similar to the ending balance classification in GAAP.

A. Fund Accounting

The accounts of the Port of Bremerton are organized on the basis of funds. Each fund is accounted for with a separate set of double-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The following are the fund types used by the Port:

Enterprise Funds

The Port's Enterprise Fund is the primary operating fund of the Port. It accounts for all of the Port's financial resources that provide goods or services to the general public and are supported primarily through user charges.

Custodial Funds

These funds are used to account for assets that the Port holds on behalf of others in a custodial capacity. Amounts held in this fund are sales and leasehold taxes collected on behalf of the State of Washington.

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, Deposits and Investments.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$10,000 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. The accompanying Schedule of Liabilities (09) reports the Port's total liability for compensated absences.

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, Long-Term Debt.

G. Restricted and Committed Portions of Ending Cash and Investments

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

The Port reports ending restricted cash of \$4,248,647 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 \$531,632.

Note 2 – Deposits and Investments

Deposits and investments by type at December 31, 2020 are as follows:

<u>Type</u>	<u>Total</u>
Petty cash	\$ 1,250
Bank deposits	1,015,445
Local Government Investment Pool	18,561,701
	<u>\$ 19,578,396</u>

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).

It is the Port's policy to invest all temporary cash surpluses. All investments are insured, registered or held by the Port or its agent in the government's name.

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

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

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 2020 was \$0.273524 per \$1,000 on an assessed valuation of \$14,020,840,913 for a total regular levy of \$3,835,039. The Port also levies for bonds at a rate of \$0.001159 per \$1,000 for an additional total bond levy of \$16,255.

Note 4 – Contingencies and Litigation

The Port has reported on Schedule of Liabilities 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 6 – Pension Plans

A. State Sponsored Pension Plans

Substantially all 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, 2020 (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 12/31/2020
PERS 1	\$ 90,223	0.012449%	439,517
PERS 2/3	\$ 150,034	0.016286%	208,294

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 – Long-Term Debt

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, 2020.

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

	Principal	Interest	Total Requirements
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
2025	19,022	1,175	20,197
2026-2030	98,490	2,985	101,475
\$	<u>298,194</u>	<u>\$ 18,279</u>	<u>\$ 316,473</u>

A \$750,000 loan from the Community Aviation Revitalization Board was approved in 2020, however, no draws on this loan have been made.

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, 2020:

Project	Commitment
Wedge Lot Development Project	\$ 221,867
AIP #33 Airfield Lighting	139,528
Breakwater Repair	1,238,587

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 of Liabilities. 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.

COVID-19

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

Administrative expenditures for the Port increased slightly related to the costs of sanitation supplies and services and technology needed for remote working and meeting capability. Marina transient revenues decreased slightly, and uncollectible accounts increased because recovery of receivables through auction was hampered by social distancing restrictions. Overall, however, the financial impact of COVID-19 to the Port has been minimal.

Prior period adjustment

A prior period adjustment is presented in the statements of *Fiduciary Fund Resources and Uses Arising from Cash Transactions* in the amount of \$113,515. This represents the reclassification of beginning cash to custodial activities because of the new requirement to report fiduciary activities separately from the Port's own-sourced activities.

**Port of Bremerton
Schedule of Liabilities
For the Year Ended December 31, 2020**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	Loans/Notes Payable	12/31/2030	341,120	-	42,926	298,194
	Total General Obligation Debt/Liabilities:		341,120	-	42,926	298,194
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		295,479	-	18,489	276,990
264.30	Net Pension Liability		693,988	-	46,177	647,811
	Total Revenue and Other (non G.O.) Debt/Liabilities:		989,467	-	64,666	924,801
	Total Liabilities:		1,330,587	-	107,592	1,222,995

Port of Bremerton
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

	Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures				Note
					From Pass- Through Awards	From Direct Awards	Total	Passed through to Subrecipients	
	FEDERAL AVIATION ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Airport Improvement Program	20.106	AIP 3-53-0007- 033-2019	-	1,908,192	1,908,192	-	2.4
Total Federal Awards Expended:					-	1,908,192	1,908,192	-	

Port of Bremerton
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2020

NOTE 1

BASIS OF ACCOUNTING

The Schedule of Financial Assistance is prepared on the same basis of accounting as the Port's financial statements. The Port uses the cash basis method of accounting.

NOTE 2

PROGRAM COSTS

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

NOTE 3

INDIRECT COST RATE

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

NOTE 4

PRIOR PERIOD EXPENDITURES

Total expenditures includes \$21,236 of expenditures in 2019 that were not previously reported.



8850 SW STATE HWY 3
BREMERTON WA 98312
portofbremerton.org

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Port of Bremerton January 1, 2020 through December 31, 2020

This schedule presents the corrective action planned by the Port for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2020-001	Finding caption: The Port did not have adequate internal controls for ensuring compliance with Davis-Bacon Act (prevailing wage rate) requirements.
Name, address, and telephone of Port contact person: Jim Rothlin, CEO 8850 S.W. State Hwy. 3 Bremerton, WA 98312 (360) 813-0821	
Corrective action the auditee plans to take in response to the finding: <i>The Port of Bremerton has a checklist for approving and paying invoices. This checklist has a section for compliance with Davis-Bacon Act for State of Washington program funds. A section has been added for Federal programs funds. This section will require that the Project Engineer report on any contractor and subcontractors in the field. The certified payroll reports for the contractor and subcontractors for all reported contractor and subcontractors will have to be presented before the invoice can be approved for payment.</i>	
Anticipated date to complete the corrective action: 1/26/2022	

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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