Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

Port of Bremerton

Kitsap County

For the period January 1, 2014 through December 31, 2014

Published August 31, 2015

Report No. 1014836

Washington State Auditor's Office

August 31, 2015

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,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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FEDERAL SUMMARY

Port of Bremerton
Kitsap County
January 1, 2014 through December 31, 2014

The results of our audit of the Port of Bremerton are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

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

- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

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

Federal Awards

Internal Control Over Major Programs:

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

- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

CFDA No.	Program Title
20.106	Airport Improvement Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The Port qualified as a low-risk auditee under OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Port of Bremerton
Kitsap County
January 1, 2014 through December 31, 2014

Board of Commissioners
Port of Bremerton
Port Orchard, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Bremerton, Kitsap County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated August 13, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

August 13, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Port of Bremerton
Kitsap County
January 1, 2014 through December 31, 2014

Board of Commissioners
Port of Bremerton
Port Orchard, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Port of Bremerton, Kitsap County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The Port's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. 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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

August 13, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Bremerton
Kitsap County
January 1, 2014 through December 31, 2014

Board of Commissioners
Port of Bremerton
Port Orchard, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Bremerton, Kitsap County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed on page 14.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Port's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Bremerton, as of December 31, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2015 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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

August 13, 2015

FINANCIAL SECTION

Port of Bremerton
Kitsap County
January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management’s Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014
Statement of Revenues, Expenses and Changes in Fund Net Position – 2014
Statement of Cash Flows – 2014
Notes to Financial Statements – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014
Notes to the Schedule of Expenditures of Federal Awards – 2014

MANAGEMENT’S DISCUSSION AND ANALYSIS

Years ended December 31, 2014 and 2013

INTRODUCTION:

This document is the Port of Bremerton’s (Port) Management Discussion and Analysis (MD&A) of financial activities and performance for the calendar years ended December 31, 2014 and 2013. It provides an introduction to the Port’s 2014 financial statements. Information contained in this MD&A has been prepared by Port management and should be considered in conjunction with the financial statements and the notes to the financial statements.

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

OVERVIEW OF THE FINANCIAL STATEMENTS:

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

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

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

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

FINANCIAL ANALYSIS OF THE PORT:

- Port assets exceeded liabilities by $79.8 million at the close of 2014 and by $76.2 million in 2013. Of this amount, $62.5 million in 2014 and $61.0 million in 2013 are invested in capital assets, net of related debt.
- The Port's net position increased in 2014 over 2013 by $3,562,968, compared to the decrease in 2013 of $1,766,074 before recording a change in accounting principle for GASB 65 of $(53,929) and a prior period adjustment of $(21,824) The 2014 increase reflects the increase in capital assets and cash investments.
- The Port's long-term debt decreased by $210,786 in 2014 and by $165,170 in 2013. Both 2014 and 2013 decreases resulted from debt payments on the bonds and loans.
- Operating revenues for 2014 and 2013 totaled $3,531,637 and $3,376,909 respectively.
- Operating expenses totaled $7,244,828 for 2014 and $7,364,755 for 2013.

PORT OF BREMERTON'S CONDENSED STATEMENT OF NET POSITION:

	2014	**2013**
Current assets	$ 16,224,486	$ 13,712,169
Restricted assets	255,844	266,083
Net capital assets	66,596,640	65,353,958
Non-current assets	2,699,905	2,799,905
Total assets	**$ 85,776,875**	**$ 82,132,115**
Current liabilities	$ 2,015,177	$ 1,722,599
Long-term liabilities	3,961,853	4,172,639
Total liabilities	**$ 5,977,030**	**$ 5,895,238**
Net position:		
Investment in capital assets	$ 62,496,014	$ 61,036,107
Restricted for capital projects	0	16,114
Unrestricted net position	17,303,831	15,184,656
Total net position	**$ 79,799,845**	**$ 76,236,877**
Total Liabilities and Net Position	**$ 85,776,875**	**$ 82,132,115**

PORT OPERATING FINANCIAL ACTIVITY:

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

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

The following summary represents the 2014 operating results to budget:

Revenues: In 2014 operating revenues fell 3.0% below budgeted revenues or $109,592 short of budget. The 2013 operating revenues were below budget by 2.7% or $94,110. The Port has experienced stable occupancy of its industrial leasehold facilities over the past two years.

Expenses: 2014 operating expenses, before depreciation, were $587,781 (11.8%) below budget, attributed to the Port restructuring implemented in 2013 and continued operational cutbacks in overall spending. Operating expenses in 2013 were $1,118,223 lower than budgeted.

Non-Operating: 2014 non-operating revenues were just $37,560 over budget (1.1%), with other non-operating expenses of $1,878 (1.2%) under budget. In 2013, non-operating revenues were $348,406 below budget (9.7%) with non-operating expenses $38,216 (16.9%) under budget.

Grant contributions were up in 2014 over 2013 by $2,714,167. The Port has had continued success in receiving major grant funding for airport and marina projects.

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

	2014	**2013**
Operating Revenues		
Airport operations	$ 234,195	$ 231,276
Marina operations	1,657,381	1,589,472
Property lease/rental operations	1,639,978	1,554,724
Other	83	1,437
Total operating revenues	**3,531,637**	**3,376,909**
Non-operating Revenues		
Ad valorem tax revenues	3,407,560	3,380,234
Investment income	16,470	21,259
Other non-operating income	66,052	88,173
Total non-operating revenues	**3,490,082**	**3,489,666**
Total revenues	**7,021,719**	**6,866,575**
Operating expenses	7,244,828	7,364,755
Non-operating expenses	153,785	435,883
Total expenses	**7,398,613**	**7,800,638**
Change in Net Position	**(376,894)**	**(934,063)**
Capital contributions	3,326,505	612,338
Special items	0	(1,292,843)
Increase (decrease) in Fund Net Position	**$ 2,949,611**	**$(1,614,568)**
Net Position - Beginning of period	**76,236,877**	**77,927,198**
Change in Accounting Principle	0	(53,929)
Prior period adjustment	613,357	(21,824)
Net Position - End of period	**$79,799,845**	**$76,236,877**

The Port's overall financial position has improved in 2014, reflecting increased operational revenue and the success in receiving increased grant funding, while keeping operating expenses relatively constant. Operating revenues increased 4.6% ($154,728) and operating expenses dropped $119,927 from 2013. The 2013 financial position had declined largely because of the writeoff of an abandoned construction project in that year.

CAPITAL ASSETS:

The Port's capital asset investment at the end of 2014 is $66,596,640, net of accumulated depreciation and $65,353,958 for 2013. Capital assets consist of land, buildings, machinery and equipment, and construction in progress. Refer to Note 4 of the Notes to Financial Statements. Capital assets increased in 2014 with the construction of the new Harper Pier, the taxiway construction project and continued work on the Cross Skia connector road, readying it for the next construction phase. Capital assets declined in 2013 as a result of management's decision to write off the remaining incurred costs of the SEED incubator/sustainable energy campus construction in progress balance after determining there was no future value from the project that has been abandoned, two residential houses were demolished on Port owned waterfront property for expansion of its marina park and the old Harper Pier was demolished to make way for construction of a new pier.

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

DEBT ADMINISTRATION:

The Port has outstanding general obligation debt at December 31, 2014 of $3,570,000 compared to $3,750,000 in 2013.

The Port's $432,000 low interest loan through CERB (Community Economic Revitalization Board) was used as a funding source for the FBO (Fixed Base Operator) building at the airport. The repayment schedule for this loan began in January 2005 and continues through January 2024. The balance at December 31, 2014 and 2013 respectively were $245,637 and $266,673. Funds from a low interest $364,471 CERB loan were received for investment in infrastructure at the Bremerton National Airport, with outstanding balances of $297,678 and $314,728 for 2014 and 2013 respectively. See Note 9 of the Notes to Financial Statements.

2015 BUDGET:

The Port's 2015 budget anticipates Operating Revenues will be flat ($2,000 less) based on comparable operations for 2014 while operating expenses are budgeted to increase 18.0% from 2014. The Port's restructuring plan implemented in 2013 was carried through 2014 operations, but required some operational cost increases in the 2015 budget process. The loss from Port operations before depreciation and before the general tax levy (partially used for operations) is anticipated to be approximately $1.6 million. After including the general tax levy, operating income is estimated at $1.5 million.

In 2015, $2,040,285 is required for capital projects, net of anticipated grants. This total includes various capital improvements in airport, marinas and real estate projects. Many of these projects are complex and are anticipated to occur over multiple years and are currently in various stages of planning, design and permitting.

Continuing to increase cash balances in 2015, the Port expects that $284,043 will be available for future capital projects so directed by the Board of Commissioners.

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

REQUEST FOR INFORMATION:

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

MCAG No. 1729

PORT OF BREMERTON
Statement of Net Position
December 31, 2014

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents (Note 1 and 2)	$ 14,430,809
Restricted assets:	
Cash and cash equivalents (Note 1 and 2)	255,844
Taxes receivable (Note 3)	249,514
Accounts receivable (net of allowance for uncollectibles) (Note 1)	65,019
Due from other governments - current portion (Note 1 and 5)	100,000
Other receivables	1,061,969
Inventory (Note 1)	45,954
Prepaid expenses	271,221
TOTAL CURRENT ASSETS	**16,480,330**
NON-CURRENT ASSETS:	
Capital assets not being depreciated (Note 4)	
Land	7,139,949
Construction in progress	4,946,485
Capital assets being depreciated (Note 4)	
Buildings and structures	38,571,674
Machinery and equipment	1,959,851
Marina and other improvements	51,367,968
Less: Accumulated depreciation	(37,389,287)
Total Net Capital Assets	**66,596,640**
Other Non-Current Assets	
Due from other governments - Long term portion (Note 1 and 5)	2,699,905
TOTAL OTHER NON-CURRENT ASSETS	**2,699,905**
TOTAL NONCURRENT ASSETS	**69,296,545**
TOTAL ASSETS	**$ 85,776,875**

continued

See Accompanying Notes to Financial Statements

MCAG No. 1729

PORT OF BREMERTON
Statement of Net Position
December 31, 2014

continued

LIABILITIES	
CURRENT LIABILITIES:	
Warrants payable	$ 105,280
Accounts payable	834,856
Accrued expenses	316,254
Unearned revenue	148,088
Accrued interest payable	21,299
Payable from restricted assets (customer deposits)	266,634
Current portion of long-term liabilities (Note 9)	322,766
TOTAL CURRENT LIABILITIES	**2,015,177**
NON-CURRENT LIABILITIES:	
General obligation bonds (Note 9)	3,372,311
CERB loans (Note 9)	504,470
Employee leave benefits (Note 1)	85,072
TOTAL NON-CURRENT LIABILITIES	**3,961,853**
TOTAL LIABILTITES	**$ 5,977,030**
NET POSITION:	
Net investment in capital assets	62,496,014
Restricted for capital projects (Note 10)	-
Unrestricted	17,303,831
TOTAL NET POSITION	**$ 79,799,845**

See Accompanying Notes to Financial Statements

MCAG No. 1729

PORT OF BREMERTON

Statement of Revenues, Expenses and Changes in Fund Net Position

For Year Ended December 31, 2014

REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

OPERATING REVENUES:	
Airport operations	$ 234,195
Marina operations	1,657,381
Property lease/rental operations	1,639,978
Other	83
Total Operating Revenues	**3,531,637**
OPERATING EXPENSES:	
General operations	3,473,685
Maintenance	280,531
General and administrative	630,156
Depreciation (Note 4)	2,860,456
Total Operating Expenses	**7,244,828**
Operating Income (Loss)	**(3,713,191)**
NONOPERATING REVENUES (EXPENSES):	
Investment income	16,470
Taxes levied for:	
General purposes (Note 3)	3,099,230
Debt service principal/interest (Note 3)	308,330
Gain (loss) on disposition of assets	4,875
Interest expense	(153,785)
Election expense	-
Other nonoperating revenues (expenses)	61,177
Total Non-Operating Revenues (Expenses)	**3,336,297**
Income (loss) before other revenues, expenses, gains, loses and transfers	**(376,894)**
Capital contributions	**3,326,505**
INCREASE (DECREASE) IN NET POSITION	**$ 2,949,611**
Net Position as of January 1	**$ 76,236,877**
Less: Prior Period adjustments (Note 14)	613,357
Net Position as of December 31	**$ 79,799,845**

See Accompanying Notes to Financial Statements

Port of Bremerton
Statement of Cash Flows
For the year ended December 31, 2014

		2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	3,659,156
Payments to suppliers		(2,699,672)
Payments to employees		(2,129,845)
Other receipts		61,161
Other payments		(1,089)
Net cash provided (used) by operating activities		**(1,110,290)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property tax receipts		3,209,686
Net cash provided (used) by noncapital financing activities		**3,209,686**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Property tax receipts for capital assets		308,330
Receipts from capital asset sale		100,000
Acquisition and construction of capital assets		(2,789,438)
Capital Contributions		2,414,110
Principal paid on bonds and note		(205,029)
Interest paid on bonds and note		(153,785)
Net cash provided (used)by capital and related financing activities		**(325,812)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments		16,470
Net increase (decrease) in cash and cash equivalents		**1,790,054**
Balances - beginning of year		12,896,599
Balances - end of year		**14,686,653**
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$	(3,713,191)
Adjustment to reconcile operating income (loss) to net cash provided used) by operating activities:		
Depreciation		2,860,457
Change in assets and liabilities:		
(Increase) decrease in accounts receivable (net)		62,289
(Increase) decrease in fuel inventory		20,011
(Increase) decrease in prepayments		5,948
Increase (decrease) in warrants payable		(497,512)
Increase (decrease) in accounts payable		30,338
Increase (decrease) in customer deposits		17,142
Increase (decrease) in unearned revenue		148,088
Increase (decrease) in accrued expenses		(43,860)
Net cash provided (used) by operating activities		**(1,110,290)**

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF BREMERTON
Notes to Financial Statements
January 1, 2014 through December 31, 2014

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Bremerton was incorporated in October 1913 and operates under the laws of the State of Washington applicable to a Port District. The financial statements of the Port have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

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

A. Reporting Entity

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

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

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

B. Basis of Accounting and Reporting

The accounting records of the Port are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The Port uses the *Budgeting, Accounting, and Reporting System for GAAP Port Districts* in the State of Washington.

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statements of net position. Their reported fund position is segregated into net investment in capital assets, restricted and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. The Port discloses changes in cash flows by a separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

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

The Port distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Port’s principal ongoing operations. The principal operating revenues of the Port are charges to customers for boat moorage and aircraft hanger rent and tie-down. The Port also recognizes as operating revenue land and building lease revenue. Operating expenses for the Port include general operations expenses, maintenance, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Use of Estimates

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

Significant Risks and Uncertainties

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

C. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

The Port acts as its own treasurer. It is the Port's policy to invest all temporary cash surpluses. At December 31, 2014, the Port was holding $14,430,809 in short-term residual investments of surplus cash. This amount is classified on the statement of net position as cash and cash equivalents.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during 2014 were approximately $516,250.

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

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

3. Receivables

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

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

Receivables have been recorded net of estimated uncollectible amounts. Because property taxes and special assessments are considered liens on property, no estimated uncollectible amounts are established. The allowance method is used to account for bad debt expense. The allowance for doubtful accounts for customer accounts receivables is $9,000 at December 31, 2014.

4. Amounts Due To and From Other Governments

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

The Port has a non-interest bearing long-term receivable with a local transit authority for reimbursable costs related to the design and construction costs of the Passenger Only

Ferry Operations Float and Service Float in Bremerton in the amount of $2,799,905. The receivable was previously conditioned upon regularly scheduled full daily passenger only ferry service operating from the Bremerton ferry terminal. An Interlocal Agreement and Memorandum of Agreement were executed in 2007 and 2009 respectively. In 2012 an A-Float – B Pontoon Reimbursement, Maintenance and Use Agreement was executed, providing a reimbursement schedule of $100,000 annual installments, beginning March 1, 2013. An accelerated repayment term is also included in the agreement, such that if and when long term operational funding for the initiation and undertaking of regular cross-sound passenger only ferry service between Seattle and Bremerton is secured, the unpaid balance of the receivable is to be paid in four equal annual installments. If service is not initiated or is cancelled, the 30 year repayment plan resumes.

5. Inventories

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

6. Restricted Assets and Liabilities

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

The restricted assets are composed of the following:

Cash and Cash Equivalent – General Obligation Bond Debt Service	$	0
Cash and Cash Equivalents – Unspent Bond Proceeds		0
Customer Deposits		280,645
Total Restricted Assets	$	280,645

Only customer deposits are shown with a related liability.

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

8. Other Assets and Debits

There are no other assets and debits at December 31, 2014.

9. Compensated Absences

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

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

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

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

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

10. Other Accrued Liabilities

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

DEPOSITS

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

INVESTMENTS

As of December 31, 2014, the Port had the following short term investments with the Local Government Investment Pool (LGIP), which are considered cash or cash equivalent:

Local Government Investment Pool	$14,483,396

All temporary investments are stated at cost, which is equivalent to fair value for these investments.

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

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

NOTE 3 – PROPERTY TAXES

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

Property Tax Calendar	
January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment payment is due.

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

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

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

The Port's regular and debt service levy for 2014 was $.3944 per $1,000 on an assessed valuation of $8,755,031,137 for a total regular levy of $3,452,898.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

A. Major expenditures for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

All capital assets are valued at historical cost (or estimated historical cost, where historical cost is not known/or estimated market value for donated assets).

The Port has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the Port has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account.

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

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

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

B. Capital assets activity for the year ended December 31, 2014, was as follows:

	BEGINNING ASSET BALANCE January 1, 2014	ADDITIONS	DELETIONS	ENDING ASSET BALANCE December 31, 2014
Capital assets, not being depreciated:				
Land	$ 7,139,949	$ 0	$ 0	$ 7,139,949
Construction in progress	1,540,751	4,033,715	627,983	4,946,485
Total capital assets, not being depreciated	**8,680,700**	**4,033,715**	**627,983**	**12,086,434**
Capital assets being depreciated:				
Buildings & structures	38,181,816	389,858	0	38,571,674
Machinery and equipment	1,897,900	133,651	71,700	1,959,851
Marina and other improv.	51,194,072	173,896	0	51,367,968
Total capital assets being depreciated	**91,273,787**	**697,405**	**71,700**	**91,899,493**
Less accumulated depreciation for:				
Buildings & structures	17,310,214	1,086,886	0	18,397,100
Machinery and equipment	1,631,695	107,122	71,700	1,667,116
Marina and other improv.	15,658,622	1,666,448	0	17,325,071
Total accumulated depreciation	**34,600,530**	**2,860,456**	**71,700**	**37,389,287**
Total capital assets, being depreciated, net	**56,673,256**	**(2,163,051)**	**0**	**54,510,206**
Total Net Capital Assets	**$65,353,958**	**1,870,664**	**627,983**	**$66,596,640**

C. Construction Commitments

The Port has active construction projects as of December 31, 2014. The major projects include Cross SKIA connector road, taxiway rehabilitation design, and pier replacement.

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

Project	Spent To Date	Remaining Commitment
Airport Master Plan Update	296,872	20,462
Cross SKIA Phase 2 (Design	727,604	16,943
Large Onsite Sewage Disposal	14,290	
Evergreen Boat Launch	55,453	10,943
Harper Pier Dock Replacement	1,157,261	160,634
Wildlife Hazard Management	10,496	34,375
Taxiway Rehabilitation Design	331,380	59,904
Taxiway & Apron Construction	2,258,881	519,778
BNA Business Plan	54,487	
Wifi Installation	39,761	
	$ 4,946,485	$ 823,039

Of the committed balance of $823,039, the Port will not be required to raise funds in future financing.

NOTE 5 – DUE FROM OTHER GOVERNMENTS

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

Year Ending December 31	Receivable Amount
2015	100,000
2016	100,000
2017	100,000
2018	100,000
2019	100,000
2020-2024	500,000
2025-2029	500,000
2030-2034	500,000
2035-2039	500,000
2040-2042	299,905
Total	$ 2,799,905

NOTE 6 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 7 – PENSION PLANS

Substantially all Port full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS) Plans 1, 2 and 3
Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.43 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate.

There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes a member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

- If they have 30 service credit years and are at least 55 years old and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to work rules.

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the

AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans as of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	101,191
Total	368,272

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

Members not participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

*The employer rates include the employer administrative expense fee currently set at 0.18%.
**The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
****The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
*****Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both Port and the employees made the required contributions. The Port's required contributions for the years ended December 31 were as follows:

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	$ 2,166	$ 101,253	$ 31,029
2013	3,280	91,944	21,200
2012	0	94,285	25,321

<u>Deferred Compensation Plans</u>

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

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

NOTE 8 – RISK MANAGEMENT

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

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

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

NOTE 9 – LONG-TERM DEBT AND LEASES

A. Long-Term Debt

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

The general obligation bonds currently outstanding are as follows:

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

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

Year Ending December 31	2009 Series Principal	Interest	Other Contracts Principal	Interest
2015	185,000	137,333	38,845	9,855
2016	190,000	132,800	39,624	9,077
2017	195,000	127,575	40,420	8,280
2018	200,000	121,725	41,235	7,465
2019	210,000	115,225	42,071	6,630
2020-2024	1,165,000	449,575	223,606	19,894
2025-2029	1,425,000	188,985	97,032	4,679
2030	0	0	20,482	205
Total	$ 3,570,000	$ 1,273,218	$ 543,315	$ 66,085

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

At December 31, 2014, the Port's assessed value and limitation of unvoted general obligation debt are as follows:

Total Taxable Property Value	$ 9,036,250,218
General Purpose Indebtedness Available Without a Vote	$ 22,590,626
Indebtedness Incurred	4,109,702
Margin of Indebtedness Available Without a Vote	$ 18,480,924

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

At December 31, 2014, the Port had no available assigned funds for payment of bond indebtedness.

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

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

B. Operating Leases

The Port leases office space in the Norm Dicks Government Center from the Kitsap County Housing Authority (KCCHA) under a noncancelable operating lease. The KCCHA sublease for 73.3% of the space was cancelled effective October 6, 2009 as a condition of the waterfront property purchase from KCCHA. In 2011 KCCHA entered into a 3 year sublease with two, three year extensions. The total lease cost in 2014 was $17,088 (net of $14,392 paid by KCCHA).

The Port executed a 10 year lease on a newly constructed 24,000 square foot building in the Olympic View Business Park, taking possession of the building in January, 2008. The lease is expressly conditioned and contingent upon a 65 year lease for the 3 acre real property upon which the building stands. The Port subleased a portion of the building to a defense contractor in 2009 and leased the remainder of the facility to them at the end of 2011. The total lease cost to the Port in 2014 was $256,158.

The Port leases other office equipment under operating leases that expire in 2019, with a total lease cost in 2014 of $5,415.

The Port holds five long-term Washington State Department of Natural Resource (DNR) land leases. The leases call for initial lease payments of $64,330, adjusted annually by the Consumer Price Index – All Urban Consumers for the Seattle-Everett region, except for each four years when the non water-dependent annual rent will be revalued to reflect the then-current fair market value.

The land leases are:

Land Leases December 31, 2014				
LESSOR	DATE OF LEASE	LEASE NUMBER	ANNUAL RENT	LAND RENTED
Dept of Natural Resources	9/1/11	2235A	$ 14,195	Port Orchard Marina
Dept of Natural Resources	9/1/11	9891	33,937	P.O. Marina Parking
Dept of Natural Resources	9/1/11	2234	5,359	Port Orchard Area North of Old Post Office
Dept of Natural Resources	9/1/11	2736	9,104	Bremerton
Dept of Natural Resources	1/1/06	2544	1,735	Water St Boat Ramp
Total			$64,330	

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

Year Ending December 31	KCCHA Lease	Olympic View Lease	Office Equipment	Land Leases	Total
2015	31,480	258,221	5,888	62,594	358,183
2016	32,532	258,221	5,888	62,594	359,235
2017	33,835	258,221	2,740	62,594	357,390
2018	35,112	10,759	1,421	62,594	109,886
2019	36,293		474	62,594	99,361
2020-2024	183,251			262,067	445,318
2025-2029	183,417			143,289	326,706
2030-2034	164,250			143,289	307,539
2035-2039	18,272			143,289	161,561
2040-2041				42,987	42,987
Total	$718,442	$785,422	$ 16,410	$ 1,047,891	$ 2,568,166

C. Property Leases

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

Year Ending December 31	Minimum Rental Income
2015	$ 1,484,302
2016	1,075,890
2017	818,924
2018	561,655
2019	520,871
2020-2024	1,956,599
2025-2029	1,615,236
2030-2034	1,195,342
2035-2039	683,822
2040-2044	630,314
Thereafter	1,509,189
Total Minimum Future Rents	$12,052,144

D. Changes in Long-Term Liabilities

During the year ended December 31, 2014, the following changes occurred in long-term liabilities:

	Beginning Balance 1/01/14	Additions	Reductions	Ending Balance 12/31/14	Due Within One Year
Bonds payable:					
L.T.G.O. Bonds	$ 3,750,000	$ 0	$ 180,000	$ 3,570,000	$ 185,000
Deferred Discount	13,550	0	860	12,689	
Total Bonds Payable	$ 3,736,450	$ 0	$ 179,140	$ 3,557,311	
Loans/Notes Payable	581,400	0	38,086	543,314	38,845
Compensated Absences	180,734	175,136	171,877	183,993	98,922
Total Long Term Liabilities	$ 4,498,585	$ 175,136	$ 389,103	$ 4,284,618	

NOTE 10 – RESTRICTED COMPONENT OF NET POSITION

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

NOTE 11 – CONTINGENCIES AND LITIGATION

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

In the opinion of management, the Port's insurance policies are adequate to pay all known or pending claims. The Port participates in a number of federal and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Port management believes that such disallowances, if any, will not be significant.

As a result of contractor malfeasance, the Port is seeking reimbursement for damages incurred involving the construction of Port facilities. Reimbursement is expected to come from restitution in a criminal case involving the contractor in question as well as a judgment in connection with a civil action brought by the Port against the contractor. Additionally, the Port seeks relief from the federal bankruptcy proceedings initiated by the contractor in question. The total obligation owing to the Port is $287,068 of which approximately $1,968 has been collected.

In February, 2010, a longstanding tenant of the Port filed Chapter 11 bankruptcy. On March 22, 2011 a Notice of Order Confirming Plan was issued by the United States Bankruptcy Court. In April, 2012, the tenant filed for Chapter 7 bankruptcy, leaving an outstanding receivable balance of $26,783 owing to the Port for five property leases, in addition to $5,139 remaining from the Chapter 11 filing. Four of the five leases were subsequently auctioned through the bankruptcy court and assigned by the Port to the successful auction bidder with all outstanding amounts for the four assigned leases paid to the Port as part of the assignment agreement. On February 13, 2015 the Port received distribution of $5,756 from the Bankruptcy Trustee on its claim of $10,909 on the fifth lease.

NOTE 12 –OTHER POST EMPLOYMENT BENEFIT (OPEB) PLANS

The Port does not have post employment obligations other than defined pension plans.

NOTE 13 – POLLUTION REMEDIATION OBLIGATIONS

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

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

NOTE 14 – UNIQUE AND UNUSUAL TRANSACTIONS

A. Prior Period Adjustments

In 2014, a prior period adjustment of $613,357 was made in accordance with an Interlocal Agreement with the City of Bremerton, retroactive to 2009 allowing the Port to retain 87.5% of its established monthly stormwater assessment to provide funding for operation, maintenance, regulatory compliance, development and expansion of its stormwater infrastructure. The Port shall maintain a separate stormwater account to track and document both revenues and expenditures of these funds.

B. Major Receivables

In 2014, 31% of the operating revenues or $503,041 charged for property lease/rental income was billed to a manufacturing company for several land and facility leases. Effective July 1, 2015 the Port renegotiated these leases downward by $220,257 in the first year in order to retain the customer at the Port, its 300 jobs and to prevent potential vacancy of three manufacturing facilities and two outdoor acreage leases from occurring had the tenant relocated to another area. The Port will recover a substantial amount of the reduction gradually over a five year period if all options as provided in the leases are exercised.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2014

Federal Agency Name/Pasthrough Agency Name	Federal Program Name	CFDA Number	Other Identification Number	Expenditures: From Pass - Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Footnote Reference
U.S. Dept of Transportation:							
U.S. Department of Transportation	FAA Airport Improvement Program	20.106	3-53-0007-26		$ 56,113	$ 56,113	1,2
U.S. Department of Transportation	FAA Airport Improvement Program	20.106	3-53-0007-27		$ 5,153	$ 5,153	1,2
U.S. Department of Transportation	FAA Airport Improvement Program	20.106	3-53-0007-28		$ 180,159	$ 180,159	1,2
U.S. Department of Transportation	FAA Airport Improvement Program	20.106	3-53-0007-29		$ 9,447	$ 9,447	1,2
U.S. Department of Transportation	FAA Airport Improvement Program	20.106	3-53-0007-30		$ 2,032,993	$ 2,032,993	1,2
Total CFDA 20.106 Non-Clustered					$ 2,283,865	2,283,865	
U.S. Department of Transportation/ pass through from WSDOT	Federal Highway Administration	20.205	STPUS-D185(002)/ LA-7386	$ 36,240		36,240	1,2
Total Federal Awards Expended:				**$ 36,240**	**$ 2,283,865**	**$ 2,320,105**	

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - Basis of Accounting

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

NOTE 2 - Program Costs

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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