



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Port of Brownsville

For the period January 1, 2020 through December 31, 2021

Published January 30, 2023

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

January 30, 2023

Board of Commissioners
Port of Brownsville
Bremerton, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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PORT OF BROWNSVILLE

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Port of Brownsville January 1, 2020 through December 31, 2021

This schedule presents the status of findings reported in prior audit periods.

Audit Period: January 1, 2015 through December 31, 2016	Report Ref. No.: 1020955	Finding Ref. No.: 2016-001
Finding Caption: The Port's internal controls over financial statement preparation were inadequate to ensure accurate and complete financial reporting.		
Background: Port Commissioners, the public, state and federal agencies and other interested parties rely on the information included in the financial statements and reports to make decisions. Port management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance regarding the reliability of financial reporting. The Port relied on a certified public accountant (CPA) firm to record financial transactions and prepare its annual financial statements and notes. Our prior audit resulted in a management letter regarding internal controls over financial reporting for fiscal years 2013 and 2014.		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>Historically, for many years, the Port of Brownsville's outside CPA firm was engaged to reconcile the Port's financial accounts, prepare the monthly journal entries, prepare monthly and annual financial statements and prepare the State Auditor's Annual Report, in addition to many other accounting duties. The Port had received a management letter for fiscal years 2013</i>		

and 2014, and a finding for fiscal years 2015 and 2016, all pertaining to inadequate internal controls over financial reporting. Throughout each of these years that required corrective actions, the Port was assured by the outside CPA firm that the proper steps were being added and maintained to assure the Port that the required corrections were being made.

In the fall of 2018, when the State Auditor’s Office came in to audit the 2017 financial statement, which was prepared by the ongoing outside CPA firm, it was determined by the State Auditor’s Office that the 2017 financial statement needed significant corrections to bring it into compliance with the current reporting standards and the Port would again receive a finding for deficient reporting.

At that point the Port reacted quickly and reached out to the Washington Public Ports Association and other Ports for assistance in hiring a CPA with long-term Port experience to correct the 2017 financial statement. The Port issued a Request for Proposal for CPA and Accounting Services at the beginning of 2019 and contracted with a CPA with long-term Port experience who restated the 2017 financial statement to be in compliance with the current reporting requirements. The new CPA also correctly prepared the 2018 through 2021 financial statements in accordance with the current reporting requirements. The new CPA has embarked on an internal training program, assisting the Port in upgrading internal control policies over multiple financial areas and assisting the Port to implement and maintain internal controls in accordance with the latest standards and to monitor the results to assure that all future reports will be in compliance with the latest reporting requirements.

The Port has taken this situation seriously and has invested significant efforts in turning this prior situation around, which is reflected by the correctly reported 2017 restated financial statement and the correctly reported 2018 through 2021 financial statements.

Audit Period: January 1, 2017 through December 31, 2019	Report Ref. No.: 1027690	Finding Ref. No.: 2019-001
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Finding Caption:
The Port’s internal controls over accounting and financial statement reporting were inadequate to ensure accurate, complete and timely reporting.

Background:
Our audit identified deficiencies in internal controls over accounting and financial reporting that affected the Port’s ability to produce complete, reliable and timely financial statements. Our audit identified the following deficiencies in internal controls for preparation of the fiscal year 2017 financial statements, that when taken together, represent a material weakness. The Port did not:

- Have a review process over the monthly cash reconciliations performed by the CPA firm to ensure they were accurate
- Perform a secondary review to ensure the journal entries the CPA firm prepared were accurate and supported

- Have procedures in place to ensure new accounting standards were implemented
- Perform an adequate review of the financial statements and notes prepared by the CPA firm to ensure all required financial statement elements were prepared and the financial information was accurately reported and fairly presented under Budgeting, Accounting and Reporting System (BARS) requirements

Status of Corrective Action: (check one)

Fully Corrected
 Partially Corrected
 Not Corrected
 Finding is considered no longer valid

Corrective Action Taken:

The Port of Brownsville acknowledges prior deficiencies in its review processes with its prior contracted CPA firm. Most, if not all of the issues raised in this audit related to the conduct of the Port's prior CPA. The Port Commission recognized the need to replace the Port's CPA and retained a new outside CPA firm with extensive experience and specifically Washington Public Port experience. The Port strives to give a fair and accurate representation of its activities in its financial statements and has put in place a tighter financial review process. All identified 2017 deficiencies and the associated 2017 notes have been corrected in the restated 2017 financial statements by the Port's new contracted CPA firm.

The Port is committed to continuing to implement and maintain internal controls in accordance with the latest standards and to monitor the results in order to assure that all future reports will be in compliance with the latest reporting requirements.

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 Brownsville January 1, 2020 through December 31, 2021

Board of Commissioners
Port of Brownsville
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 Brownsville, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Port's financial statements, and have issued our report thereon dated January 23, 2023.

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.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Port's internal control over financial reporting (internal control) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 style with a large, sweeping initial "P".

Pat McCarthy, State Auditor

Olympia, WA

January 23, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Port of Brownsville January 1, 2020 through December 31, 2021

Board of Commissioners
Port of Brownsville
Bremerton, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the Port of Brownsville, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, as listed in the financial section of our report.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the Port has prepared these financial statements to meet the financial reporting requirements of state law and 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 accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the Port of Brownsville, and its changes in cash and investments, for the years ended December 31, 2021 and 2020, on the basis of accounting described in Note 1.

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 Brownsville, as of December 31, 2021 and 2020, or the changes in financial position or cash flows thereof for the years then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Port, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to 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. As described in Note 1 of the financial statements, the financial statements are prepared by the Port in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management 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 BARS Manual 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and

Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Port's financial statements. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the

United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2023 on our consideration of the Port's internal control over financial reporting and on the 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 the effectiveness of the Port's 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 that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized initial "P".

Pat McCarthy, State Auditor

Olympia, WA

January 23, 2023

**Port of Brownsville
January 1, 2020 through December 31, 2021**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2021
Fund Resources and Uses Arising from Cash Transactions – 2020
Notes to Financial Statements – 2021
Notes to Financial Statements – 2020

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2021
Schedule of Liabilities – 2020

**Port of Brownsville
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021**

Beginning Cash and Investments

308	Beginning Cash and Investments	1,022,674
388 / 588	Net Adjustments	-

Revenues

310	Taxes	419,822
320	Licenses and Permits	-
330	Intergovernmental Revenues	30,118
340	Charges for Goods and Services	1,561,062
350	Fines and Penalties	-
360	Miscellaneous Revenues	11,260
Total Revenues:		2,022,262

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	1,767,251
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		1,767,251
Excess (Deficiency) Revenues over Expenditures:		255,011

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	128,704
Total Other Increases in Fund Resources:		128,704

Other Decreases in Fund Resources

594-595	Capital Expenditures	45,669
591-593, 599	Debt Service	279,557
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	121,732
Total Other Decreases in Fund Resources:		446,958

Increase (Decrease) in Cash and Investments: (63,243)

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	240,598
50841	Committed	-
50851	Assigned	718,833
50891	Unassigned	-
Total Ending Cash and Investments		959,431

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

Beginning Cash and Investments

308	Beginning Cash and Investments	1,205,285
388 / 588	Net Adjustments	-

Revenues

310	Taxes	412,254
320	Licenses and Permits	-
330	Intergovernmental Revenues	37,815
340	Charges for Goods and Services	1,348,057
350	Fines and Penalties	-
360	Miscellaneous Revenues	14,937
Total Revenues:		1,813,063

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	1,712,595
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		1,712,595
Excess (Deficiency) Revenues over Expenditures:		100,468

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	114,757
Total Other Increases in Fund Resources:		114,757

Other Decreases in Fund Resources

594-595	Capital Expenditures	7,965
591-593, 599	Debt Service	279,282
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	110,589
Total Other Decreases in Fund Resources:		397,836

Increase (Decrease) in Cash and Investments: (182,611)

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	240,403
50841	Committed	-
50851	Assigned	782,271
50891	Unassigned	-
Total Ending Cash and Investments		1,022,674

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Port of Brownsville (Port) was incorporated on April 7, 1920 and operates under the laws of the State of Washington applicable to a Port district.

Reporting Entity

The Port is located in Bremerton, Washington and its territory covers less than the entire county. The Port is a special purpose local government that provides marina facilities, pavilion, park and commercial buildings to the general public and is supported by user charges and taxes from a property tax levy. The Port may acquire and improve land for sale or lease for industrial or commercial purposes. The Port is governed by an elected three-member board.

Basis of Accounting and Reporting

The Port reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual 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 statement.
- 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 statement as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances for proprietary funds are presented using classifications that are different from the ending net position classifications in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. The Port has one fund. The following fund type is used:

PROPRIETARY FUND TYPE

Enterprise Fund

This fund accounts for operations that provide goods or services to the general public and are supported primarily through user charges.

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

B. Basis of Accounting and Measurement Focus

The Port's financial statement is prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

C. Cash and Investments - See Note 2, Deposits and Investments.

D. Inventory - Fuel

The Port sells gas, diesel, propane, oil and absorbents (fuel). Fuel revenues are recognized when fuel is sold. Fuel expenditures are recognized when fuel is purchased.

E. Capital Assets

Capital assets, including major repairs, are assets with an initial individual cost of \$2,000 or more and an estimated useful life in excess of one (1) year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation leave, eligible sick leave and associated payroll taxes. Payments are recognized as expenditures when paid.

Vacation pay, which is earned ratably on each pay period, may be accumulated up to three hundred sixty (360) hours and is payable upon separation, retirement or death. Accumulated hours over three hundred sixty (360) at year-end may be paid to the employee each January, if not carried over to the next year.

Sick leave accrues at the rate of eight (8) hours per month, ninety-six (96) hours per year for full-time regular employees. Sick leave accrues for part-time regular employees in an amount proportionate to the time the employee is in pay status during the month to that of a full-time employee. Part-time seasonal or summer help accrues one (1) hour of sick leave for every forty (40) hours worked in an amount proportionate to the employee is in pay status.

The Port does not restrict the accumulation of sick leave. At the time of termination of employment (either voluntarily or involuntarily) any unused sick leave is forfeited and employees are not entitled to any pay in lieu of unused sick leave. Upon retirement, an employee shall receive pay for 25% of their accumulated sick leave provided that the employee has a minimum of five (5) years of continuous service with the Port and meet all the requirements to be eligible for retirement under the Public Employees' Retirement System.

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

F. Compensated Absences, Continued

The total compensated absences balance was \$20,382 at December 31, 2021. See *Schedule of Liabilities* (Schedule 09).

G. Long-Term Debt - See Note 4, Long-Term Debt.

H. Restricted and Committed Portion of Cash and Investments

Beginning and Ending Cash and Investments is 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 of Commissioners. When expenditures that meet restrictions are incurred, the Port intends to use the most restricted resources first. Restrictions and Commitments of Ending Cash and Investments consist of \$240,598 and \$0, respectively.

NOTE 2 - DEPOSITS AND INVESTMENTS:

Investments are reported at original cost. Deposits and investments by type at December 31, 2021 are as follows:

Type of Deposit or Investment	Port's Own Deposits and Investments Total
Bank Deposits	\$ 281,330
Timberland Bank Savings	496,796
Local Government Investment Pool (LGIP)	181,305
Total	\$ 959,431

It is the Port's policy to invest all temporary cash surpluses. The interest on these investments is recorded in the Port's General Fund. The investments in the LGIP are classified as cash equivalents. Within the investment accounts, the Port internally maintains segregated subaccounts to reflect any balances in restricted, committed, assigned and unassigned accounts. All deposits and investments are insured, registered or held by the Port or its agent in the government's name.

Deposits

The carrying amount of the Port's cash deposits with financial institutions was \$277,851 held at Timberland Bank, a \$2,689 deposit in transit to Timberland Bank, \$490 held at the Kitsap County Treasurer (KCT), \$0 held in the Port's Kitsap Bank's Bank Merchant Services account, and \$300 of petty cash for gas dock and office tills on hand at the Port for total deposits at December 31, 2021 of \$281,330.

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2021

NOTE 2 - DEPOSITS AND INVESTMENTS, CONTINUED:

Deposits, Continued

The Kitsap Bank's Merchant Services account processes the Port's payments that it receives via credit card payments by customers. Upon processing, the payments are automatically deposited into the Port's General Fund cash account at Timberland Bank. Of the total carrying value of deposits of \$281,330 at December 31, 2021, \$0 and \$281,330 was restricted and assigned, respectively.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the 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 mostly covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments

In March of 2021, the Port passed Resolution 21-02, providing the authorization to invest in the LGIP and wired \$181,190 to the LGIP for the Port's long-term investment of their General Obligation (G.O.) and Revenue Bond reserves, respectively.

The carrying amount of the Port's investments was \$678,101 held at Timberland Bank and the LGIP of which \$240,598 and \$437,503 was restricted and assigned, respectively.

The total carrying amount of deposits and investments was \$959,431 at December 31, 2021 of which \$240,598 and \$718,833 was restricted and assigned, respectively.

The Port is a voluntary participant in the LGIP, 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 is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

As required by state law, all investments of Port funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, or certificates of deposit with Washington State Banks or savings and loan institutions.

On August 12, 2020, the Port Commission passed Resolution 20-06, appointing one of its members to be the Port Treasurer. The Port Treasurer maintains the accounts of the Port at

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
 December 31, 2021

NOTE 2 - DEPOSITS AND INVESTMENTS, CONTINUED:

Investments, Continued

Timberland Bank in Silverdale, Washington, a certified Public Depository Institution. The Port invests its surplus cash according to a Policy adopted by the commission in Resolution 20-07, dated October 14, 2020, that uses three criteria to determine what investments are appropriate. The three criteria, in order of importance are; preservation of principal, liquidity and return on investment. Investment earnings are reported in each investment's respective total.

NOTE 3 - PROPERTY TAX:

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

Collections are distributed monthly to the Port by the KCT. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Port may levy up to 45 cents per \$1,000 of assessed valuation for general Port purposes.

The Port's regular levy for 2021 was \$0.207111 per \$1,000 on a total assessed valuation of \$2,027,005,104 for a total regular levy of \$419,817.

NOTE 4 - LONG-TERM DEBT:

The Port issues G.O. bonds and Revenue bonds to finance the acquisition and construction of capital assets.

The accompanying *Schedule of Liabilities* (Schedule 09) provides more details of the outstanding debt and liabilities of the Port and summarizes the Port's debt transactions for the year ended December 31, 2021.

The debt service requirements for G.O. and Revenue bonds at December 31, 2021 are as follows:

Year ending December 31	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 175,000	\$ 104,608	\$ 279,608
2023	175,000	99,108	274,108
2024	225,000	93,482	318,482
2025	240,000	85,807	325,807
2026	245,000	77,545	322,545
2027 - 2031	1,410,000	244,800	1,654,800
2032 - 2036	<u>375,000</u>	<u>46,200</u>	<u>421,200</u>
Totals	\$ <u>2,845,000</u>	\$ <u>751,550</u>	\$ <u>3,596,550</u>

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2021

NOTE 5 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) - OPEB PLANS:

The Port is a participating employer in the state's Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical, dental, and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides OPEB benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately. The Port had six (6) active plan members and zero (0) retired plan members as of December 31, 2021. As of December 31, 2021, the Port's total OPEB liability was \$203,881 as calculated using the alternative measurement method. The Port contributed \$34,447 to the plan for the year ended December 31, 2021. See *Schedule of Liabilities* (Schedule 09).

NOTE 6 - PENSION PLANS:

State Sponsored Pension Plans

Substantially all Port full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS), a statewide retirement system administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit retirement plans.

The State Legislatures 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 Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

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

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2021

NOTE 6 - PENSION PLANS, CONTINUED:

State Sponsored Pension Plans, Continued

At June 30, 2021 (the measurement date of the plans), the Port's proportionate share of the collective net pension liabilities, as reported on the *Schedule of Liabilities* (Schedule 09), was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$13,104	0.001759%	\$ 21,482
PERS 2/3	\$21,343	0.002253%	(\$224,435)

NOTE 7 - RISK MANAGEMENT:

Port of Brownsville is a member of the Enduris Washington (Pool). Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. For the Pool's fiscal year ending August 31, 2021, there were 539 Enduris members representing a broad array of special purpose districts throughout the state.

The Enduris' program provides for various forms of joint self-insurance and reinsurance coverage for its members: Liability coverage, which includes: General Liability, Automobile Liability, Public Officials' Errors and Omissions liability, Terrorism liability and Employment Practices liability; Property coverage, which includes: Building and Contents, Mobile Equipment, Boiler and Machinery, and Business Interruption/Extra Expense; Automobile Physical Damage coverage; Cyber coverage; Crime blanket coverage; Named Position coverage; and an Identity Fraud reimbursement program. Pollution coverage is provided on a "claims made" coverage form. All other coverage is provided on an "occurrence" coverage form.

Members are responsible for a coverage deductible or co-pay on each covered loss. Each policy year members receive a Memorandum of Coverage (MOC) outlining the specific coverage, limits, and deductibles/co-pays that are applicable to them. In certain cases the Pool may allow members to elect to participate in the programs at limits, coverage, deductibles, and co-pays that are specific to their needs. Enduris is responsible for payment of all covered losses above the member retention, up to the Pool self-insured retention (SIR). Enduris acquires excess/reinsurance from unrelated insurance companies to cover losses above the Pool's SIR up to the coverage maximum limit of liability. The tables below reflect the Pool's SIR, reinsurance limits and member deductibles/co-pays by coverage type.

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2021

NOTE 7 - RISK MANAGEMENT, CONTINUED:

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
Liability:				
Comprehensive General Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Automobile Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Public Officials Errors and Omissions Liability	Each Wrongful Act Member Aggregate	\$1 million	\$20 million \$20 million	\$1,000 - \$100,000
Terrorism Liability ⁽²⁾	Per Occurrence Pool Aggregate	\$500,000 \$1 million	\$0 Fully funded by Pool	\$1,000 - \$100,000
Employment Practices Liability	Per Occurrence Member Aggregate	\$1 million	\$20 million \$20 million	20% Copay ⁽³⁾

- (1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible
(2) Terrorism liability is fully funded by the Pool i.e. no excess/reinsurance is procured.
(3) Members pay a 20% co-pay of costs up to a maximum of \$100,000. By meeting established guidelines, the co-pay may be waived.

Property ^{(2):}

Buildings and Contents	Per Occurrence	\$250,000	\$800 million	\$1,000 - \$250,000
Mobile Equipment	Per Occurrence	\$250,000	\$800 million	\$1,000 - \$250,000
Boiler and Machinery ⁽³⁾	Per Occurrence	Varies	\$100 million	Varies
Business Interruption (BI)/ Extra Expense (EE) ⁽⁴⁾	Per Occurrence	\$250,000	\$100 million (BI)/ \$50 million (EE)	\$1,000 - \$250,000

Sublimit ^{(5):}

Flood	Per Occurrence	\$250,000	\$50 million (shared by Pool members)	\$1,000 - \$250,000
Earthquake	Per Occurrence	5%; \$500,000 maximum	\$10 million (shared by Pool members)	\$1,000 - \$250,000
Terrorism Primary	Per Occurrence Pool Aggregate	\$250,000	\$100 million/ Pool member \$200 million	\$1,000 - \$250,000
Terrorism Excess	Per Occurrence APIP Per Occurrence APIP Aggregate	\$500,000	\$600 million/Pool member \$1.2 billion/APIP \$1.4 billion/APIP	\$0

Automobile Physical Damage⁽⁶⁾	Per Occurrence	\$25,000; \$100,000 for Emergency Vehicles	\$800 million	\$250 - \$1,000
Crime Blanket ⁽⁷⁾	Per Occurrence	\$50,000	\$1 million	\$1,000
Named Position ⁽⁸⁾	Per Occurrence	\$50,000	\$1 million	\$1,000

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2021

NOTE 7 - RISK MANAGEMENT, CONTINUED:

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
Cyber ⁽⁹⁾	Each Claim APIP Aggregate	\$100,000	\$2 million \$25 million	20% Copay
Identity Fraud Expense Reimbursement ⁽¹⁰⁾	Member Aggregate	\$0	\$25,000	\$0

- (1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible.
- (2) Property coverage for each member is based on detailed property schedule. Scheduled items are covered to the extent of the cost of repair or replacement pursuant to the excess/reinsurance policy terms. Under the Alliant Property Insurance Program (APIP) Reinsurance carriers cover insured losses over \$250,000 to the limit of \$800 million except for certain types of sub-limited property losses such as flood, earthquake, and terrorism.
- (3) Boiler and Machinery self-insured retention for the Pool varies depending on motor horsepower.
- (4) Business Interruption/ Extra expense coverage is based on scheduled revenue generating locations/operations. A limited number of members schedule and the rest are limited to \$500,000 of coverage with a \$2.5 million Pool maximum for undeclared exposure. The waiting period (deductible) is typically 24 hours but there are exceptions specific to the type of exposure covered.
- (5) This sublimit list is simplified and is not all-inclusive. In addition, sub-limits are often shared or aggregated by all pool members and, in a few cases, are shared by all APIP members. Deductibles often vary by coverage sub-limit.
- (6) Auto Physical Damage coverage includes comprehensive, named perils and collision. Coverage for each member is based on a detail vehicle schedule.
- (7) Crime Blanket coverage (also referred to as "Employee Dishonesty Coverage with Faithful Performance" of \$2,500 is provided to each member. Members may elect to "buy-up" the level of coverage from \$5,000 to \$1 million.
- (8) Named Position coverage is optional. Members may elect to schedule various employees, directors, and commissioners, with individual limits of between \$5,000 and \$1 million.
- (9) Cyber coverage is included under the Pool's Property program. Members are subject to a 20% co-pay per loss and the Pool's SIR is tiered between \$50,000 and \$100,000 depending on the insured/members property TIV with an 8 hour waiting period. By meeting established guidelines, the co-pay may be waived. The reinsurance maximum limit of liability is \$2 million, with various declared sub-limits.
- (10) Identity Fraud Expense Reimbursement coverage is purchased by Enduris. Member claims do not have a deductible. There is a \$25,000 limit per member.

Members make an annual contribution to fund the Pool. Since Enduris is a cooperative program, there is joint liability among the participating members. There were no claim settlements in excess of the insurance coverage in any of the last three policy years.

Upon joining the Pool, members are contractually obligated to remain in the Pool for a minimum of one year and must give notice 60 days before renewal in order to terminate participation. The Interlocal Governmental Agreement (formerly known as the Master Agreement) is automatically renewed each year unless provisions for withdrawal or termination are applied. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in process claims for the period they were a signatory to the Interlocal Governmental Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and administers the claims.

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool's members elect the Board, and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for overseeing the business affairs of Enduris and providing policy direction to the Pool's Executive Director.

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2021

NOTE 8 - OTHER DISCLOSURES:

Grants

Over the years, the Port was a recipient of a Washington State Parks and Recreation Commission grant, which was a federal flow-through grant from U.S. Fish and Wildlife under the Clean Vessel Act for a boat sewage disposal facility. The Port completed the capital portion of the grant previously and is eligible to participate in the maintenance reimbursement portion of the grant for the life of the asset, which provides for 75% of the cost of the maintenance of the Port's floating restrooms, pumpout system and the pumpout boat. The Port incurred \$27,449 of eligible reimbursable grant expenditures in 2021. See Note 8, Contingencies and Litigation, Subsequent Events and *Schedule of Expenditures of Federal Awards* (Schedule 16).

In 2021, the Recreation and Conservation Office (RCO) entered into a grant agreement with the Port for an \$86,025 grant with a \$28,675 Port match, for a total project cost of \$114,700 to install two (2) pay stations with associated utilities to support motorized boating. See Note 8, Contingencies and Litigation and Subsequent Events.

Grant expenditures include amounts owing to the Port for eligible expenditures incurred in 2021.

Contingencies and Litigation

The Port has been in ongoing discussions with a Port tenant to address various rent and Leasehold Excise Tax issues. See Note 8, Subsequent Events.

The Port has received information from a regulatory agency in the form of Project and Calculator Notes and a Puget Sound Nearshore Conservation Calculator. Both documents appear to be preliminary and relate to the Port's maintenance activities. The Conservation Calculator notes total points for Conservation Credits/Debits as -856. Further review and development of this information will be needed to assess what this means in terms of potential cost, if any, to the Port. The outcome of this matter is uncertain. See Note 8, Subsequent Events.

The Port participates in a number of federal and state assisted programs. The grants the Port receives under these programs are subject to audit by 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 be immaterial.

The Port acquired certain assets with funding provided by federal and state financial assistance programs. Depending upon the terms of the agreements involved, the funding governmental unit could retain an equity interest in these assets resulting in the assets reverting back to the agency if the assets are not used for their intended purposes. 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.

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2021

NOTE 8 - OTHER DISCLOSURES, CONTINUED:

Contingencies and Litigation, Continued

Contingencies and Litigation - U.S. Fish and Wildlife Service, Department of the Interior, Clean Vessel Act, Recoverable Grants

Over the years, the Port has received multiple recoverable grants for the design, construction and maintenance of the marina floating restrooms, portable pumpout system and pumpout boat from the U.S. Fish and Wildlife Service, Department of the Interior, Clean Vessel Act, federal pass through grants via Washington State Parks and Recreation Commission. These grants are contingent on the marina floating restrooms, portable pumpout system and pumpout boat remaining in operation, over water, for twenty (20) years. The grants provide for a repayment of the grant proceeds should the asset be utilized in a non-authorized manner. The Port continues to receive annually a 75% reimbursement for the maintenance of these assets. The annual maintenance portion of these grants are included in Intergovernmental Revenues grant funds for each year received. See Note 8, Grants and *Schedule of Expenditures of Federal Awards* (Schedule 16) for each year for the amounts of the grants incurred.

Contingencies and Litigation - State of WA Recreation and Conservation Office (RCO) Recoverable Grant

The Port received a \$653,616 recoverable grant from RCO for the marina boat launch and associated improvements, which was completed in 2019. The project funded with an RCO grant must remain dedicated to the use as originally funded for as long as defined in the project agreement. RCO requires a long-term obligation to maintain the project area. Non-compliance with the long-term obligations for a RCO grant may jeopardize an organization's ability to obtain future RCO grants. RCO requires that grant recipients replace the lost value of the project when changes or conversions of use take place.

Contingencies and Litigation - Past Due Payments in Arrears

At December 31, 2021, five (5) tenants are more than ninety (90) days in arrears in their moorage payments for approximately \$13,408. Their total outstanding rent at December 31, 2021 is \$15,491. The Port is pursuing various collection actions. See Note 8, Subsequent Events.

Subsequent Events

Effective January 1, 2022, per the Port's 2022 tariff, the Port implemented three (3) monthly dedicated fees assessed on marina slip usage for the 2017 Revenue Bond repayment, new technology and for security cameras.

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2021

NOTE 8 - OTHER DISCLOSURES, CONTINUED:

Subsequent Events, Continued

In 2022, the Port submitted a revision to RCO for approval to modify the scope of work for the RCO grant for the installation of two (2) marina pay stations and associated utilities. The modification relocates one pay station to a different area in the marina. Upon approval of the change in scope, the Port anticipates completion of the project by the end of 2022. See Note 8, Grants.

In 2022, the Port has applied for reimbursement for \$18,525 from the Department of Natural Resources, which is 90% of the eligible costs incurred for the disposal of three (3) vessels.

The Port has contacted various regulatory agencies in regard to the communication received in 2021 and has not received any further communications from them. See Note 8, Contingencies and Litigation.

The Port has continued ongoing discussions with a Port tenant to address various rent and Leasehold Excise Tax issues. See Note 8, Contingencies and Litigation.

The Port has entered into a contract for \$53,015 to repair the main pier pilings to address the main pier structure with an estimated completion date of fall of 2022.

In 2022, the Port has entered into a contract for \$35,335 to repair the North Breakwater anchor chains with an anticipated completion date of fall of 2022.

At May 29, 2022, four (4) tenants are more than ninety (90) days in arrears in their moorage payments for approximately \$17,243. Their total outstanding rent at May 29, 2022 is approximately \$17,243. The Port is pursuing various collection actions. See Note 8, Contingencies and Litigation.

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT
December 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Port of Brownsville (Port) was incorporated on April 7, 1920 and operates under the laws of the State of Washington applicable to a Port district.

Reporting Entity

The Port is located in Bremerton, Washington and its territory covers less than the entire county. The Port is a special purpose local government that provides marina facilities, pavilion, park and commercial buildings to the general public and is supported by user charges and taxes from a property tax levy. The Port may acquire and improve land for sale or lease for industrial or commercial purposes. The Port is governed by an elected three-member board.

Basis of Accounting and Reporting

The Port reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual 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 statement.
- 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 statement as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are presented using classifications that are similar to the ending balance classifications in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. The Port has one fund. The following fund type is used:

PROPRIETARY FUND TYPE

Enterprise Fund

This fund accounts for operations that provide goods or services to the general public and are supported primarily through user charges.

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

B. Basis of Accounting and Measurement Focus

The Port's financial statement is prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

C. Cash and Investments - See Note 2, Deposits and Investments.

D. Inventory - Fuel

The Port sells gas, diesel, propane, oil and absorbents (fuel). Fuel revenues are recognized when fuel is sold. Fuel expenditures are recognized when fuel is purchased.

E. Capital Assets

Capital assets, including major repairs, are assets with an initial individual cost of \$2,000 or more and an estimated useful life in excess of one (1) year. Capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation leave, eligible sick leave and associated payroll taxes. Payments are recognized as expenditures when paid.

Vacation pay, which is earned ratably on each pay period, may be accumulated up to three hundred sixty (360) hours and is payable upon separation, retirement or death. Accumulated hours over three hundred sixty (360) at year-end may be paid to the employee each January, if not carried over to the next year.

Sick leave accrues at the rate of eight (8) hours per month, ninety-six (96) hours per year for full-time regular employees. Sick leave accrues for part-time regular employees in an amount proportionate to the time the employee is in pay status during the month to that of a full-time employee. Part-time seasonal or summer help accrues one (1) hour of sick leave for every forty (40) hours worked in an amount proportionate to the employee is in pay status.

The Port does not restrict the accumulation of sick leave. At the time of termination of employment (either voluntarily or involuntarily) any unused sick leave is forfeited and employees are not entitled to any pay in lieu of unused sick leave. Upon retirement, an employee shall receive pay for 25% of their accumulated sick leave provided that the employee has a minimum of five (5) years of continuous service with the Port and meet all the requirements to be eligible for retirement under the Public Employees' Retirement System.

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
 December 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

F. Compensated Absences, Continued

The total compensated absences balance was \$16,894 at December 31, 2020. See *Schedule of Liabilities* (Schedule 09).

G. Long-Term Debt - See Note 4, Long-Term Debt.

H. Restricted and Committed Portion of Cash and Investments

Beginning and Ending Cash and Investments is 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 of Commissioners. When expenditures that meet restrictions are incurred, the Port intends to use the most restricted resources first. Restrictions and Commitments of Ending Cash and Investments consist of \$240,403 and \$0, respectively.

NOTE 2 - DEPOSITS AND INVESTMENTS:

Investments are reported at original cost. Deposits and investments by type at December 31, 2020 are as follows:

<u>Type of Investment</u>	<u>Port's Own Deposits and Investments</u>	<u>Port's Own Deposits and Investments Held by Kitsap County</u>	<u>Total</u>
Bank Deposits	\$ 798,292	\$ 224,382	\$ 1,022,674
Total	\$ 798,292	\$ 224,382	\$ 1,022,674

It is the Port's policy to invest all temporary cash surpluses. The interest on these investments is recorded in the account that generated the interest for the monies invested at the Kitsap County Treasurer (KCT), and in the Port's General Fund for monies controlled by the Port. The KCT was the custodian of the Port's deposits and investments through December of 2020. On December 18, 2020, the Port transferred \$827,351 from KCT into the Port's new General Fund account at Timberland Bank in Silverdale, Washington. KCT had the responsibilities over the remaining balances at the KCT until transferred to the Port's Timberland Bank General Fund in January and February of 2021. All deposits and investments are insured, registered or held by the Port or its agent in the government's name.

Deposits

The carrying amount of the Port's deposits with financial institutions was \$797,323 held at

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 2 - DEPOSITS AND INVESTMENTS, CONTINUED:

Deposits, Continued:

Timberland Bank, a \$284 deposit in transit to Timberland Bank, \$224,382 held at the KCT, \$0 held in the Port's Kitsap Bank's Bank Merchant Services account, and \$685 of petty cash for gas dock and office tills on hand at the Port for total deposits at December 31, 2020 of \$1,022,674. The Kitsap Bank's Merchant Services account processes the Port's payments that it receives via credit card payments by customers. Upon processing, the payments are automatically deposited into the Port's General Fund cash account for the Port, which switched from the KCT to Timberland Bank in December of 2020. Of the total carrying value of deposits of \$1,022,674 at December 31, 2020, \$240,403 and \$782,271 was restricted and assigned, respectively.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the 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 mostly covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments

The carrying amount of the Port's investments was \$0 held at Timberland Bank and the KCT of which \$0 and \$0 was restricted and assigned, respectively. At December 31, 2020, the Port had liquidated out of the Kitsap County Investment Pool (KCIP), an external investment pool operated by the KCT as it prepared to transfer to Timberland Bank's savings and growth account. See Note 8, Subsequent Events.

The total carrying amount of deposits and investments was \$1,022,674 at December 31, 2020 of which \$240,403 and \$782,271 was restricted and assigned, respectively.

As required by state law, all investments of Port funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, or certificates of deposit with Washington State Banks or savings and loan institutions.

On August 12, 2020, the Port Commission passed Resolution 20-06, appointing one of its members to be the Port Treasurer. The Port Treasurer maintains the accounts of the Port at Timberland Bank in Silverdale, Washington, a certified Public Depository Institution. Previously KCT operated as the Port's Treasurer until the balance of the KCT funds were transferred to Timberland Bank in December of 2020 and at the start of 2021. The Port invests its surplus cash according to a Policy adopted by the commission in Resolution 20-07, dated October 14, 2020, that uses three criteria to determine what investments are appropriate. The three criteria, in order of importance are; preservation of principal, liquidity and return on investment. Investment earnings are reported in each investment's respective total.

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 2 - DEPOSITS AND INVESTMENTS, CONTINUED:

The Port is an involuntary participant in the Kitsap County Investment Pool (KCIP), an external investment pool operated by the KCT. The Pool is not rated or registered with the SEC. Rather, oversight is provided by the Kitsap County Finance Committee in accordance with RCW 36.48.070. The district reports its investment in the Pool at amortized cost, which is the same as the value of the Pool per share. The KCIP does not impose liquidity fees or redemption rates on participant withdrawals.

NOTE 3 - PROPERTY TAX:

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

Collections are distributed monthly to the Port by the KCT. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Port may levy up to 45 cents per \$1,000 of assessed valuation for general Port purposes

The Port's regular levy for 2020 was \$0.216277 per \$1,000 on a total assessed valuation of \$1,908,837,567 for a total regular levy of \$412,838.

NOTE 4 - LONG-TERM DEBT:

The Port issues General Obligation (G.O.) bonds and Revenue bonds to finance the acquisition and construction of capital assets.

The accompanying *Schedule of Liabilities* (Schedule 09) provides more details of the outstanding debt and liabilities of the Port and summarizes the Port's debt transactions for the year ended December 31, 2020.

The debt service requirements for G.O. and Revenue bonds at December 31, 2020 are as follows:

Year ending December 31	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 170,000	\$ 109,557	\$ 279,557
2022	175,000	104,607	279,607
2023	175,000	99,108	274,108
2024	225,000	93,483	318,483
2025	240,000	85,808	325,808
2026 - 2030	1,350,000	295,145	1,645,145
2031 - 2035	600,000	70,200	670,200
2036	<u>80,000</u>	<u>3,200</u>	<u>83,200</u>
Totals	\$ <u>3,015,000</u>	\$ <u>861,108</u>	\$ <u>3,876,108</u>

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 5 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) - OPEB PLANS:

The Port is a participating employer in the state's Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical, dental, and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides OPEB benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same Pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately. The Port had five (5) active plan members and no retired plan members as of December 31, 2020. As of December 31, 2020, the Port's total OPEB liability was \$88,821 as calculated using the alternative measurement method. The Port contributed \$35,105 to the plan for the year ended December 31, 2020. See *Schedule of Liabilities* (Schedule 09).

NOTE 6 - PENSION PLANS:

State Sponsored Pension Plans

Substantially all Port full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS), a statewide retirement system administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit retirement plans.

The State Legislatures 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 %	Liability (Asset)
PERS 1	\$13,204	0.001822%	\$ 64,326
PERS 2/3	\$21,901	0.002377%	\$ 30,400

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 7 - RISK MANAGEMENT:

Port of Brownsville is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2020, there are 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services. Members make an annual contribution to fund Enduris and share in the self-insured retention. The self-insured retention is:

- \$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$800 million per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to remain in the Pool for a minimum of one (1) year and must give notice sixty (60) days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 7 - RISK MANAGEMENT, CONTINUED:

The Pool is governed by a Board of Directors consisting of seven (7) board members. The Pool's members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

Enduris did not have any claim settlements that exceeded the limits in the last three (3) years.

NOTE 8 - OTHER DISCLOSURES:

Grants

Over the years, the Port was a recipient of a Washington State Parks and Recreation Commission grant, which was a federal flow-through grant from U.S. Fish and Wildlife under the Clean Vessel Act for a boat sewage disposal facility. The Port completed the capital portion of the grant previously and is eligible to participate in the maintenance reimbursement portion of the grant for the life of the asset, which provides for 75% of the cost of the maintenance of the Port's floating restrooms, pumpout system and the pumpout boat. The Port incurred \$29,072 of eligible reimbursable grant expenditures in 2020. See Note 8, Contingencies and Litigation, Subsequent Events and *Schedule of Expenditures of Federal Awards* (Schedule 16).

Grant expenditures include amounts owing to the Port for eligible expenditures incurred in 2020.

Contingencies and Litigation

The Port participates in a number of federal and state assisted programs. The grants the Port receives under these programs are subject to audit by 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 be immaterial.

The Port acquired certain assets with funding provided by federal and state financial assistance programs. Depending upon the terms of the agreements involved, the funding governmental unit could retain an equity interest in these assets resulting in the assets reverting back to the agency if the assets are not used for their intended purposes. 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.

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 8 - OTHER DISCLOSURES, CONTINUED:

Contingencies and Litigation, Continued

Contingencies and Litigation - U.S. Fish and Wildlife Service, Department of the Interior, Clean Vessel Act, Recoverable Grants

Over the years, the Port has received multiple recoverable grants for the design, construction and maintenance of the marina floating restrooms, portable pumpout system and pumpout boat from the U.S. Fish and Wildlife Service, Department of the Interior, Clean Vessel Act, federal pass through grants via Washington State Parks and Recreation Commission. These grants are contingent on the marina floating restrooms, portable pumpout system and pumpout boat remaining in operation, over water, for twenty (20) years. The grants provide for a repayment of the grant proceeds should the asset be utilized in a non-authorized manner. The Port continues to receive annually a 75% reimbursement for the maintenance of these assets. The annual maintenance portion of these grants are included in Intergovernmental Revenues grant funds for each year received. See Note 8, Grants and *Schedule of Expenditures of Federal Awards* (Schedule 16) for each year for the amounts of the grants incurred.

Contingencies and Litigation - State of WA Recreation and Conservation Office (RCO) Recoverable Grant

The Port received a \$653,616 recoverable grant from RCO for the marina boat launch and associated improvements. The project area funded with a RCO grant must remain dedicated to the use as originally funded for as long as defined in the project agreement. RCO requires a long-term obligation to maintain the project area. Non-compliance with the long-term obligations for a RCO grant may jeopardize an organization's ability to obtain future RCO grants. RCO requires that grant recipients replace the lost value of the project when changes or conversions of use take place. See Note 8, Subsequent Events.

Contingencies and Litigation - Past Due Payments in Arrears

At December 31, 2020, two (2) tenants are more than ninety (90) days in arrears in their moorage payments for approximately \$1,526. Their total outstanding rent at December 31, 2020 is \$1,526. The Port is pursuing various collection actions. See Note 8, Subsequent Events.

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 8 - OTHER DISCLOSURES, CONTINUED:

Subsequent Events

In January of 2021, the SAO held their Exit Conference with the Port to go over the results of their financial and accountability audits of 2017, 2018 and 2019, along with their forensic examination. SAO issued one finding in their financial audit and two findings in their accountability audit, along with their results of their investigative audit. One of the accountability findings pertained to certain unallowable costs for the Port's boat launch project. The Port immediately contacted the granting agency to report the matter. The granting agency did not request any further actions from the Port. See Note 8, Contingencies and Litigation - RCO Recoverable Grant.

In February of 2021, the Port Commission passed Resolution 21-01, authorizing a grant application to RCO for a boat ramp pay station. After the presentations, the Port ranked 5th for funding out of sixteen (16) applications. The award notifications to the successful applicants will be made in June of 2021.

In February of 2021, the Port Commission revised their 2021 tariff to revise Item 26 - Late Fees. The fee was revised from 2% per day past the 15th of the month to 2% overall monthly. They also postponed the live aboard 2021 fee increase until July of 2021 due to the COVID-19 pandemic.

In March of 2021, the Port Commission passed resolution 21-02, providing the authorization to invest in the Washington State Local Government Investment Pool (LGIP). On March 3, of 2021, the Port wired \$181,189.76 to the LGIP for the Port's long-term investment of their GO and Revenue Bond Fund Reserves, respectively. See Note 2, Deposits and Investments.

In 2021, the Port received \$16,330 and \$61,563, for a total of \$77,893 from the Department of Natural Resources (DNR) and from State Farm Insurance, respectively, to reimburse the Port for eligible expenditures incurred when two separate vessels sank in the marina.

In May of 2021, the Port held a public auction for three derelict vessels that are now in Port custody. The Port successfully sold one of the vessels at auction and is continuing to work with the DNR on the disposal of the vessels.

PORT OF BROWNSVILLE
NOTES TO FINANCIAL STATEMENT, CONTINUED
December 31, 2020

NOTE 8 - OTHER DISCLOSURES, CONTINUED:

Subsequent Events, Continued

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. To help control the spread of the virus in our community, the Port administrative office was closed through June of 2021, when it is anticipated that it will open on a full-time basis to the public at that time. The Port's essential employees continued to work, practicing appropriate social distancing measures. The length of time these measures will be in place, and the full extent of the financial impact on the Port is unknown at this time.

In May of 2021, the Port hired a new permanent Port Manager at the Port's regular Commission meeting with a starting date of June 2, 2021. The Interim Port Manager will provide ongoing assistance, as requested.

At May 30, 2021, two (2) tenants are more than ninety (90) days in arrears in their moorage payments for approximately \$3,032. Their total outstanding rent at May 30, 2021 is approximately \$4,532. The Port is pursuing various collection actions. See Note 8, Contingencies and Litigation.

**Port of Brownsville
Schedule of Liabilities
For the Year Ended December 31, 2021**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	Limited Tax General Obligation Bonds for Marina Dock Replacement, ISSUED 06/27/2012	12/1/2031	1,800,000	-	-	1,800,000
251.11	Limited Tax General Obligation Bonds for Marina Dock Replacement, ISSUED 10/22/2013	12/1/2023	220,000	-	120,000	100,000
Total General Obligation Debt/Liabilities:			2,020,000	-	120,000	1,900,000
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	General Revenue Bonds for Boat Harbor Facilities Capital Improvements, ISSUED 04/28/2017	12/1/2036	995,000	-	50,000	945,000
259.12	Compensated Absences		16,894	3,488	-	20,382
264.30	Pension Liabilities		94,726	-	73,244	21,482
264.40	OPEB Liabilities		88,821	115,060	-	203,881
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,195,441	118,548	123,244	1,190,745
Total Liabilities:			3,215,441	118,548	243,244	3,090,745

**Port of Brownsville
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	Limited Tax General Obligation Bonds for Marina Dock Replacement, ISSUED 06/27/2012	12/1/2031	1,800,000	-	-	1,800,000
251.11	Limited Tax General Obligation Bonds for Marina Dock Replacement, ISSUED 10/22/2013	12/1/2023	340,000	-	120,000	220,000
Total General Obligation Debt/Liabilities:			2,140,000	-	120,000	2,020,000
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	General Revenue Bonds for Boat Harbor Facilities Capital Improvements, ISSUED 04/28/2017	12/1/2036	1,040,000	-	45,000	995,000
259.12	Compensated Absences		31,155	-	14,261	16,894
264.30	Pension Liabilities		109,321	-	14,595	94,726
264.40	OPEB Liabilities		139,782	-	50,961	88,821
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,320,258	-	124,817	1,195,441
Total Liabilities:			3,460,258	-	244,817	3,215,441

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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.

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