Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Port of Brownsville

Kitsap County

For the period January 1, 2015 through December 31, 2016

Published March 22, 2018

Report No. 1020955

Office of the Washington State Auditor

Pat McCarthy

March 22, 2018

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 condition.

Pat McCarthy

State Auditor

Olympia, WA

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Port of Brownsville
Kitsap County
January 1, 2015 through December 31, 2016

2016-001 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 accountants (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.

Description of Condition

Our audit identified the following deficiencies in internal controls 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 completed accurately
- Perform a secondary review to ensure that the journal entries the CPA firm prepared were correct and supported
- Review its balance sheet accounts against the monthly or year-end financial statements the CPA firm compiled
- Have procedures in place to ensure new accounting standards were implemented
- Possess the necessary technical knowledge and experience and did not 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 generally accepted accounting principles (GAAP) and Budgeting, Accounting and Reporting System (BARS) Manual requirements.

Cause of Condition

The Port did not dedicate the necessary staff time or resources, including training, to ensure its records and financial reports were accurate and complete.

Effect of Condition

Financial reports cannot be relied upon by Port officials, the public, state and federal agencies, and other interested parties if financial activity is not accurately reported. The above stated deficiencies resulted in the following misstatements and presentation errors on the original financial statements we received for audit. The Port:

- Did not implement Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which resulted in the following errors. The Port did not:

    - Report its Net Pension Liability of $314,588 and $344,805 in fiscal years 2015 and 2016, respectively

    - Report Deferred Inflows related to pensions of $48,509 and $18,457 in fiscal years 2015 and 2016, respectively

    - Report Deferred Outflows related to pensions of $38,431 and $61,506 in fiscal years 2015 and 2016, respectively

    - Report the Cumulative Effect of Change in Accounting Principle (to adjust beginning Net Position) of $330,660 in fiscal year 2015

    - Include all required pension-related information in the Notes to the financial statements for fiscal years 2015 and 2016

    - Prepare the required supplementary information related to pensions for fiscal years 2015 and 2016

- Implemented GASB Statement No. 63, *Reporting Deferred Outflows, Deferred Inflows and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* during 2013, but did not carry forward the presentation changes or use current BARS Manual templates to prepare its 2015 and 2016 annual reports. As a result, the language and presentation of the financial statements and notes did not conform to the GASB Statements' requirements.

- Did not prepare a Statement of Cash Flows for fiscal year 2016
- Included the Work in Progress balances of $1,000,068 and $238,026 for fiscal years 2015 and 2016, respectively, as part of Property, Plant & Equipment. Work in Progress should be classified under non-depreciable assets and reported separately.

The Port corrected the misstatements identified above in its final financial statements.

Recommendations

We recommend the Port:

- Establish and follow monitoring and oversight procedures to ensure general ledger balances are accurate, complete and adequately supported
- Provide adequate training to staff members responsible for oversight of financial reporting to ensure compliance with GAAP, including implementation of all new accounting standards
- Establish and follow an effective process for review of the financial statements by a person who understands GAAP and BARS Manual financial reporting requirements to ensure the financial statements are fairly presented, complete and accurate

Port's Response

The Port agrees with the audit finding and thank them for the recommendations offered to correct the Ports Internal control policies. We are grateful for the time and effort provided by state in this audit and want to comply with the recommendation. We will implement and follow those recommendations in the future.

Auditor's Remarks

We thank the Port for its assistance throughout the audit and its commitment to resolving the identified control deficiencies. We will review the status of the Port's corrective action during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 – Local government accounting – Uniform system of accounting, gives the state auditor the authority to formulate, prescribe and install a uniform system of accounting and reporting for all local governments.

Budgeting Accounting and Reporting System (BARS) Manual – Accounting,

Accounting Principles and General Procedures, Internal Control defines internal control, describes its purpose, and specifies each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal controls, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

Governmental Accounting Standards Board Statement No. 68 provides guidance for accounting and financial reporting for pensions.

Governmental Accounting Standard Board Statement No. 63 provides guidance for reporting deferred outflows and inflows of resources, and net position in a statement of financial position and related disclosures.

Governmental Accounting Standard Board Statement No. 65 provides guidance on how to properly classify and recognize certain items that were previously reported as assets and liabilities as deferred outflows or deferred inflows of resources.

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 Brownsville
Kitsap County
January 1, 2015 through December 31, 2016

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, Kitsap County, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated March 6, 2018. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the Port implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Port's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying

Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2016-001 to be a material weakness.

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*.

PORT'S RESPONSE TO FINDINGS

The Port's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Port's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

March 6, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Port of Brownsville
Kitsap County
January 1, 2015 through December 31, 2016

Board of Commissioners
Port of Brownsville
Bremerton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Port of Brownsville, Kitsap County, Washington, as of and for the years ended December 31, 2016 and 2015, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Brownsville, as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2015, the Port adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2018 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

March 6, 2018

FINANCIAL SECTION

Port of Brownsville
Kitsap County
January 1, 2015 through December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016
Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Balance Sheet – 2016
Balance Sheet – 2015
Statement of Revenues, Expenses and Changes in Net Position – 2016
Statement of Revenues, Expenses and Changes in Net Position – 2015
Statement of Cash Flows – 2016
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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 and PERS 2/3 – 2016
Schedule of Proportionate Share of the Net Pension Liability – PERS 1 and PERS 2/3 – 2015
Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2016
Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2015

PORT OF BROWNSVILLE

9790 Ogle Rd● NE Bremerton, WA 98311
Office: 360-692-5498 ● FAX 360-698-8023
pob@portofbrownsville.org

Commissioners:
Jack Bailey
Fred Perkins
Bob Kalmbach

Management's Discussion and Analysis

Year ended December 31, 2016

Introduction

The following is the Port of Brownsville's (Port) Management Discussion and Analysis (MD&A) of financial activities and performance for the calendar year ended December 31, 2016. It provides an introduction to the Port's 2016 financial statements. Information contained in the 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 expenses.

Overview of the Financial Statements

The financial section of this annual report consists of three parts: MD&A, the basic financial statement, and the notes to the financial statements. The basic financial statements include: Balance Sheet; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows.

The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position tell us if the Port, as a whole, is better or worse off as a result of the year's activities. On the Balance Sheet, the Port's assets plus deferred outflows of resources equals liabilities plus deferred inflows of resources, plus 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 Net Position indicates how the Port's net position changed during the most recent year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows.

Fund Financial Statements

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Port uses only one fund, a General Fund.

Financial Report

- At the close of 2016 Port assets of $7,619,357 exceeded liabilities of $3,140,777 by $4,478,580
- Operating revenues for 2016 totaled $1,281,038
- Non-Operating revenues (Expenses) for 2016 totaled $312,681
- Operating expenses for 2016 totaled $1,647,196
- At the close of 2016 the Port's net position decreased by ($53,477)

Port of Brownsville Condensed Balance Sheet

Assets and Deferred Outflows

			Net Increase (Decrease)
Current Assets:	2016	2015	2016 vs 2015
Cash and Cash Equivalents	$ 896,140	$ 818,123	$ 78,017
Other Current Assets	$ 58,127	$ 60,466	$ (2,339)
Capital Assets Net of Depreciation	$6,665,090	$6,915,862	$ (250,772)
Total Assets	$7,619,357	$7,794,451	$(175,094)
Deferred Outflows of Resources			
Deferred Outflow for Pension (GASB 68) (Note 4)	$ 59,964	$ 38,431	$ 21,534
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$7,679,321	$7,832,882	$ (153,561)

Liabilities, Deferred Inflows and Net Position

Current Liabilities	$ 290,767	$ 272,463	$ 18,304
Non-Current Liabilities	$2,850,010	$2,938,346	$ (88,336)
Total Liabilities	$3,140,777	$3,210,809	$ (70,032)
Deferred inflows of Resources			
Deferred Inflow for Pension (GASB 68) (Note 4)	$ 18,457	$ 48,509	$ (30,052)

NET POSITION

Net Invested in Capital Assets	$4,185,090	$4,325,861	$ (140,771)
Restricted Net Position	$ 93,078	$ 92,631	$ 447
Unrestricted Net Position	$ 241,919	$ 155,072	$ 86,847
Total Net Position	$4,520,087	$4,573,564	$(53,477)
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$7,679,321	$7,832,882	$ (153,561)

Port Operating Financial Activity

As noted earlier, the Port uses only one fund, a General Fund, to comply with Washington State mandated reporting requirements. The Port's operations consist of a recreational marina including a two lane boat launch, guest moorage spaces and a public fishing pier. The Port also has one rental houses and leases out building space. Of these the marina produces the bulk of the revenue.

Port of Brownsville Condensed Statement of Revenues, Expenses and Changes in Net Position

	2016	2015
Operating Revenues	$1,281,038	$1,358,917
Operating Expense	$1,647,196	$1,694,454
Operating Income (loss)	$ (366,158)	$ (335,537)
Non-Operating Revenue (Expense)	$ 312,681	$ 153,512
Net Income (Loss)	($ 53,477)	($ 182,025)

Current Assets:	2016	2015	2016 vs 2015
The Port's beginning net position	$ 4,573,564	$5,086,196	$ (512,632)
The Ports ending net position	$ 4,520,087	$4,573,564	$ (53,477)

The Port's overall financial position decreased in 2016 by **($ 53,477)**

Capital Assets

The Port's capital asset investment in 2016 is $6,665,090 net of accumulated depreciation. Capital assets consist of land, building, machinery, docks and equipment. See note 3 of the Notes to Financial Statements.

Long-Term Debt

The Port has one general obligation bond in 2016 for a total debt obligation of $2,370,000.00 this bond will mature in 2031.

Request for Information

The Port of Brownsville developed this report to provide information to financial statement users, the Port's constituents, customer, vendors and the general public. If you have any questions about the information or would like additional information about the Port, you can visit our website at www.portofbrownsville.org or you can contact the Port office at 9790 Ogle RD NE Bremerton, WA 98311.
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Management's Discussion and Analysis

Year ended December 31, 2015

Introduction

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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 expenses.

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The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position tell us if the Port, as a whole, is better or worse off as a result of the year's activities. On the Balance Sheet, the Port's assets plus deferred outflows of resources equals liabilities plus deferred inflows of resources, plus 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 Net Position indicates how the Port's net position changed during the most recent year. These changes are reported as the underlying event occurs regardless of the timing of related cash flows.

Fund Financial Statements

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Port uses only one fund, a General Fund.

Financial Report

- At the close of 2015 Port assets of $7,794,451 exceeded liabilities of $3,210,809 by $4,583,564
- Operating revenues for 2015 totaled $1,358,917
- Non-Operating revenues (Expenses) for 2015 totaled $153,512
- Operating expenses for 2015 totaled $1,694,454
- At the close of 2015 the Port's net position decreased by ($182,025)

Port of Brownsville Condensed Balance Sheet

ASSETS and Deferred Outflows

			Net Increase (Decrease)
Current Assets:	2015	2014	2015 vs 2014
Cash and Cash Equivalents	$ 818,123	$1,248,808	$(430,685)
Other Current Assets	$ 60,466	$ 67,846	$ (7,380)
Capital Assets Net of Depreciation	$6,915,861	$6,802,937	$ 112,924
Total Assets	$7,794,451	$8,119,591	$(325,140)
Deferred Outflows of Resources			
Deferred Outflow for Pension (GASB 68) (Note 4)	$ 38,431	$ 0	$ 38,431
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$7,832,882	$8,119,591	$ (286,709)

LIABILITIES, Deferred Inflows and Net Position

Current Liabilities	$ 272,463	$ 443,395	$(170,932)
Non-Current Liabilities	$2,938,346	$2,590,000	$ 348,346
Total Liabilities	$3,210,809	$3,033,395	$ 177,414
Deferred inflows of Resources			
Deferred Inflow for Pension (GASB 68) (Note 4)	$ 48,509	$ 0	$ 48,509

NET POSITION

Net Invested in Capital Assets	$4,325,861	$4,102,937	$ 222,924
Restricted Net Position	$ 92,631	$ 195,009	$(102,378)
Unrestricted Net Position	$ 155,072	$ 788,250	$(633,178)
Total Net Position	$4,573,564	$5,086,196	$(512,632)
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$7,832,882	$8,119,591	$ (286,709)

Port Operating Financial Activity

As noted earlier, the Port uses only one fund, a General Fund, to comply with Washington State mandated reporting requirements. The Port's operations consist of a recreational marina including a two lane boat launch, guest moorage spaces and a public fishing pier. The Port also has one rental houses and leases out building space. Of these the marina produces the bulk of the revenue.

Port of Brownsville Condensed Statement of Revenues, Expenses and Changes in Net Position

	2015	2014
Operating Revenues	$1,358,917	$1,395,877
Operating Expense	$1,694,454	$1,819,247
Operating Income (loss)	$ (335,537)	$ (423,370)
Non-Operating Revenue (Expense)	$ 153,512	$ 319,405
Net Income (Loss)	($ 182,025)	($ 103,965)

Current Assets:	2015	2014	2015 vs 2014
The Port's beginning net position	$ 5,086,196	$5,190,161	$ (103,965)
Prior Period Adjustment	$ (5,941)	$ 0	$ (5,941)
Cumulative Effect of Change in Accounting Principle for GASB 68	$ (324,666)	$ 0	$ (324,666)
The Ports ending net position	$ 4,573,564	$5,086,196	$ (512,632)

The Port's overall financial position decreased in 2015 by **($ 512,632)**

Capital Assets

The Port's capital asset investment in 2015 is $6,915,862 net of accumulated depreciation. Capital assets consist of land, building, machinery, docks and equipment. See note 3 of the Notes to Financial Statements.

Long-Term Debt

The Port has one general obligation bond in 2015 for a total debt obligation of $2,480,000.00 this bond will mature in 2031.

Request for Information

The Port of Brownsville developed this report to provide information to financial statement users, the Port's constituents, customer, vendors and the general public. If you have any questions about the information or would like additional information about the Port, you can visit our website at www.portofbrownsville.org or you can contact the Port office at 9790 Ogle RD NE Bremerton, WA 98311.
Telephone: 360-692-5498, Fax: 360-698-8023

PORT OF BROWNSVILLE
BALANCE SHEET
December 31, 2016

ASSETS AND DEFERRED OUTFLOWS

CURRENT ASSETS:	
Cash and cash equivalents (Note 1)	$803,062
Restricted Assets: (Note 1.c.4)	
Cash and Cash Equivalents (Note 1.c.4)	93,078
Taxes receivable	7,679
Inventory	22,234
Prepaid expenses	28,214
TOTAL CURRENT ASSETS	954,267
NONCURRENT ASSETS:	
Capital Assets Not Being Depreciated:	
Land	336,517
Work in Progress	238,026
Capital Assets Being Depreciated:	
Property, plant and equipment (Note 3)	11,804,253
Less: Accumulated depreciation	(5,713,706)
Total Capital Assets (net)	6,665,090
TOTAL NONCURRENT ASSETS	6,758,168
TOTAL ASSETS	$7,619,357
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow for Pension (GASB 68) (Note 4)	59,964
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 7,679,321

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF BROWNSVILLE
BALANCE SHEET
December 31, 2016

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

LIABILITIES	
Current Liabilities:	
Accounts payable	$88,977
Accrued vacation and sick time benefits	91,790
Payables from Restricted Assets:	
Current portion of long-term obligations (Notes 6)	110,000
TOTAL CURRENT LIABILITIES	290,767
Noncurrent Liabilities:	
Unamortized Bond Premium	135,205
Payables from Restricted Assets:	
General obligation bonds (Note 6)	2,370,000
Net Pension Liability	344,805
TOTAL NONCURRENT LIABILITIES	2,850,010
TOTAL LIABILITIES	3,140,777
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows for pension (GASB 68) (Note 4)	18,457
TOTAL DEFERRED INFLOWS OF RESOURCES	18,457
NET POSITION:	
Net Investment in Capital Assets	4,185,090
Restricted for Debt Service	93,078
Unrestricted	241,919
TOTAL NET POSITION	4,520,087
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 7,679,321

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF BROWNSVILLE
BALANCE SHEET
December 31, 2015

ASSETS AND DEFERRED OUTFLOWS

CURRENT ASSETS:	
Cash and cash equivalents (Note 1)	$ 725,492
Restricted Assets: (Note 1.c.4)	
Cash and Cash Equivalents (Note 1.c.4)	92,631
Taxes receivable (Note 1)	10,055
Inventory (Note 1)	22,183
Prepaid expenses	28,228
TOTAL CURRENT ASSETS	878,589
NONCURRENT ASSETS:	
Capital Assets Not Being Depreciated:	
Land	336,517
Work in Progress	1,000,068
Capital Assets Being Depreciated:	
Property, plant and equipment (Note 4)	10,933,757
Less: Accumulated depreciation	(5,354,480)
Total Capital Assets (net)	6,915,862
TOTAL NONCURRENT ASSETS	6,915,862
TOTAL ASSETS	7,794,451
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow for Pension (GASB 68) (Note 4)	38,431
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$7,832,882

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF BROWNSVILLE
BALANCE SHEET
December 31, 2015

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

LIABILITIES	
Current Liabilities:	
Accounts payable	$ 86,142
Accrued vacation and sick time benefits	76,321
Payables from Restricted Assets:	
Current portion of long-term obligations (Notes 7)	110,000
TOTAL CURRENT LIABILITIES	272,463
Non-Current Liabilities:	
Unamortized Bond Premium	143,758
General obligation bonds (Note 7)	2,480,000
Net Pension Liability	314,588
TOTAL NON-CURRENT LIABILITIES	2,938,346
TOTAL LIABILITIES	3,210,809
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows for Pension (GASB 68) (Note 4)	48,509
TOTAL DEFERRED INFLOWS OF RESOURCES	48,509
NET POSITION:	
Net Investment in Capital Assets	4,325,861
Restricted for Debt Service	92,631
Unrestricted	155,072
TOTAL NET POSITION	4,573,564
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$7,832,882

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF BROWNSVILLE
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For the Year Ended December 31, 2016

OPERATING REVENUES:	
Marina operations	$ 1,257,492
Property lease/rental operations	23,546
Total Operating Revenues	$ 1,281,038
OPERATING EXPENSES:	
General operations	889,831
Maintenance	116,125
General and administrative	282,014
Depreciation (Note 3)	359,226
Total Operating Expenses	1,647,196
Operating Income (Loss)	(366,158)
NONOPERATING REVENUES (EXPENSES):	
Investment income	5,575
Taxes levied for:	
General purposes (Note 2)	385,516
Interest expense	(78,410)
Total Non-Operating Revenues (Expenses)	312,681
NET INCOME (LOSS)	$ (53,477)
Net Position - January 1	4,573,564
Net Position - December 31	$ 4,520,087

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF BROWNSVILLE
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For the Year Ended December 31, 2015

OPERATING REVENUES:	
Marina operations	$ 1,335,161
Property lease/rental operations	23,756
Total Operating Revenues	1,358,917
OPERATING EXPENSES:	
General operations	988,350
Maintenance	199,367
General and administrative	285,538
Depreciation (Note 3)	221,199
Total Operating Expenses	1,694,454
Operating Income (Loss)	(335,537)
NONOPERATING REVENUES (EXPENSES):	
Investment income	6,072
Taxes levied for:	
General purposes (Note 2)	380,497
Gain (loss) on disposition of assets	(153,135)
Interest expense	(79,922)
Total Non-Operating Revenues (Expenses)	153,512
NET INCOME (LOSS)	(182,025)
Net Position - January 1	5,086,196
Prior Period Adjustment	(5,941)
Cumulative Effect of Change in Accounting Principle for GASB 68	(324,666)
Net Position - December 31	$ 4,573,564

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF BROWNSVILLE

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	1,281,038
Payments to suppliers		(930,157)
Payments to employees		(367,092)
Net cash provided (used) by operating activities		(16,211)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes Received		385,516
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions		-
Purchases of capital assets (Net)		(108,454)
Principal paid on capital debt		(110,000)
Interest paid on capital debt		(78,410)
Other receipts (payments)		
Net cash provided (used) by capital and related financing activities		(296,864)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends		5,575
Net Cash provided by investing activities		5,575
Net increase (decrease) in cash and cash equivalents	$	78,016
Balance - beginning of the year		818,123
Balance - end of the year	$	896,139

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating income (loss)	$	(366,158)
Provided (used) by operating activities:		
Depreciation and amortization expense		359,226
Ajustment to pension expense, per GASB 68		(21,368)
Change in assets and liabilities:		
Receivables, net		2,376
Inventories		(52)
Accounts and other payables		18,166
Accrued expenses and Other Assets		(8,401)
Net cash provided by operating activities	$	(16,211)

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF BROWNSVILLE

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	1,358,917
Payments to suppliers		(1,118,509)
Payments to employees		(374,541)
Net cash provided (used) by operating activities		(134,133)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes Received		380,497
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions		-
Purchases of capital assets (Net)		(493,200)
Principal paid on capital debt		(110,000)
Interest paid on capital debt		(79,922)
Other receipts (payments)		
Net cash provided (used) by capital and related financing activities		(683,122)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends		6,073
Net Cash provided by investing activities		6,073
Net increase (decrease) in cash and cash equivalents	$	(430,685)
Balance - beginning of the year		1,248,808
Balance - end of the year	$	818,123
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating income (loss)	$	(335,537)
provided (used) by operating activities:		
Depreciation and amortization expense		229,752
Change in assets and liabilities:		
Receivables, net		7,641
Inventories		1,003
Accounts and other payables		(35,687)
Accrued expenses and Other Assets		(1,305)
Net cash provided by operating activities	$	(134,133)

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

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

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Brownsville was incorporated on April 7, 1920 and operates under the Laws of the State of Washington applicable to a Port District. The accounting and reporting policies of the Port of Brownsville conform to generally accepted accounting principles for local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies including identification of those policies which result in material departures from generally accepted accounting principles (GAAP).

a. Reporting Entity

The Port of Brownsville is a special purpose government entity that provides marina facilities to the general public and is supported primarily through user charges.

An elected three-member board governs the Port. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. (The Port of Brownsville has no component units.)

b. Basis of Accounting

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the Budgeting, Accounting and Reporting System Manual.

The Port uses the accrual basis of accounting where revenues are recognized only when earned and expenses are recognized when incurred. Purchases of capital assets are capitalized and long-term liabilities are accounted for in the appropriate funds.

The Port distinguishes operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services in connection with the Port's principal ongoing operations. The principal operating revenue of the Port are charges to customers for moorage fees. Operating

expenses for the district include cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

The Kitsap County Treasurer is the custodian of the Port's cash and temporary investments. At December 31, 2016, the Kitsap County Treasurer was holding $ 896,139 in cash and short-term residual investments of surplus cash. The Port had petty cash and credit card deposits outstanding on hand of $700. Total unrestricted Cash as of December 31, 2016 was $ 803,062.

The Port District's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). As required by state law, all deposits and investments of the Port's funds are obligations of the State Treasurer's Investment Pool or deposits with Washington State banks and savings and loan institutions.

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. Receivables

The Property taxes receivable account consists of property taxes and related interest and penalties. Property taxes receivable were $7,679 as of December 31, 2016. (See Note 2)

3. Inventories

Inventories of gas and diesel are maintained on the first in, first out method (FIFO). The only inventory the port has is fuel. The inventory is very small and is quickly sold, usually within a week, even in the Winter. The method of pricing inventory is cost.

4. Restricted Assets

In accordance with bond resolutions, separate restricted funds are required to be established. The assets held in the funds are restricted for the specific purpose of bond redemptions. At December 31, 2016, the Port had restricted funds of $ 93,078.

5. Capital Assets and Depreciation (See Note 3)

6. Compensated Absences

The Port accrues vacation and sick leave benefits when earned. At December 31, 2016, the liability for sick leave was $55,029. The liability for unpaid vacation benefits at December 31, 2016 was $36,761.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Prepaid Expenses

Costs relating to the sale of bonds are deferred and amortized over the lives of the various bonds. As of December 31, 2016, the non-amortized portion of these costs were $135,205.

8. Long-Term Debt (See Note 6)

9. Pensions (See Note 4)

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2 - PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed twice a year to the Port by the County Treasurer, once in April and again in October.

Property Tax Calendar

January 1	Tax is levied and becomes an enforceable lien against properties.
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. A revaluation of all property is required every four years.
October 31	Second installment is due.

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible tax 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 cents per $1,000 of assessed valuation for general governmental services.

The Port's regular levy for 2016 will be $0.277315 per $1,000 on an assessed valuation of $1,390,172,150 for a total regular levy of $386,189.

Note 2 - PROPERTY TAXES (Continued)

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.

Note 3 – CAPITAL ASSETS AND DEPRECIATION

Capital Assets, which include property, plant, equipment and infrastructure assets are reported in the financial statements. Major expenditures for capital assets are defined as assets with an initial, individual cost of more than $2,000 and an estimated useful life in excess of 1 year. 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 acquisition value for donated assets.

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

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or 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.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives of 5 to 30 years. Depreciation expense for 2016 was $359,226.

Note 3 – CAPITAL ASSETS AND DEPRECIATION (Continued)

Governmental Activities	Beginning Balance 01/01/2016	Increases	Decreases	Ending Balance 12/31/2016
Capital assets, not being depreciated:				
Land	$ 336,517	$ -0-	$ -0-	$ 336,517
Work in Process	1,000,068	93,459	855,500	238,026
Total capital assets, not being depreciated	$ 1,336,585	$ 93,459	$ 855,500	$ 574,543
Capital assets, being depreciated:				
Structures and Improvements	$ 1,908,752	$ -0-	$ -0-	$ 1,908,752
Marine Equipment	8,924,362	870,496	-0-	9,794,858
Machinery and Vehicles	46,297	-0-	-0-	46,297
Furniture and Office Equipment	54,346	-0-	-0-	54,346
Total capital assets being depreciated	$10,933,757	$ 870,496	$ -0-	$ 11,804,253
Less accumulated depreciation for:				
Structures and Improvements	$ 1,096,883	$ 67,001	$ -0-	$ 1,163,884
Marine Equipment	4,219,516	278,029	-0-	4,497,545
Machinery and Vehicles	27,710	4,681	187	32,204
Furniture and Office Equipment	10,558	9,515	-0-	20,073
Total accumulated depreciation	$ 5,354,667	$ 359,226	$ -0-	$ 5,713,706
Total capital assets being depreciated, net	$ 5,579,090	$ 511,270	$ 187	$ 6,090,547
Governmental activities capital assets, net	$ 6,915,675	$ 604,729	$ 855,687	$ 6,665,090

Useful lives and classes are as follows:

Structures and Improvements – 5-30 year lives
Marine Equipment – 5-30 year lives
Machinery and Vehicles – 5-10 year lives

Note 4 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

Aggregate Pension Amounts – All Plans

Pension liabilities	$ 344,805
Pension assets	$ 0
Deferred outflows of resources	$ 59,964
Deferred inflows of resources	$ (18,457)
Pension expense/expenditures	$ 15,920

State Sponsored Pension Plans

Substantially all the Port's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380.

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

Public Employees' Retirement System (PERS)

PERS members include elected officials: state employees; employees of the Supreme, Appeals, and Superior courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 consecutive highest service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are

Note 4 – PENSION PLANS (Continued)

actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 20, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by the State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	**11.18%**	**6.0%**

*For employees participating in JBM, the contribution rate was 12.26%.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty

Note 4 – PENSION PLANS (Continued)

disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the

Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a change to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3	Employer 2/3	Employee 2*
Actual Contribution Rates:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**11.18%**	**6.12%**

* For employees participating in JBM, the contribution rate was 15.30%.

The Port’s actual PERS plan contributions to the plan were $16,168 to PERS Plan 1 and $21,118 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) *2007-2012 Experience Study.*

Note 4 – PENSION PLANS (Continued)

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled

forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting, the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent expect LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the Port's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 188,783	$ 156,549	$ 128,810
PERS 2/3	346,613	188,256	(97,998)

Note 4 – PENSION PLANS (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Port reported a total pension liability of $344,805 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$ 156,549
PERS 2/3	$ 188,256

Report total pension liabilities and total pension assets separately – **do not net.**

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

	Proportionate Share 6/30/15	**Proportionate Share 6/30/16**	**Change in Proportion**
PERS 1	.003195%	.002915%	(.000280%)
PERS 2/3	.004127%	.003739%	(.000388%)

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

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

Pension Expense

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

	Pension Expense
PERS 1	$ (7,131)
PERS 2/3	$ 23,051

Note 4 – PENSION PLANS (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 0	$ 0
Net difference between projected and actual investment earnings on pension plan investments	$ 3,942	$ 0
Changes of assumptions	$ 0	$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	$ 0	$ 0
Contributions subsequent to the measurement date	$ 8,413	$ 0
TOTAL	$ 12,355	$ 0

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 10,024	$ (6,215)
Net difference between projected and actual investment earnings on pension plan investments	$ 23,037	$ 0
Changes of assumptions	$ 1,946	$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	$ 1,614	$ (12,243)
Contributions subsequent to the measurement date	$ 10,988	$ 0
TOTAL	$ 47,609	$ (18,457)

Combined PERS 1 and PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 10,024	$ (6,215)
Net difference between projected and actual investment earnings on pension plan investments	$ 26,979	$ 0
Changes of assumptions	$ 1,946	$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	$ 1,614	$ (12,243)
Contributions subsequent to the measurement date	$ 19,401	$ 0
TOTAL	$ 59,964	$ (18,457)

Note 4 – PENSION PLANS (Continued)

Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2017	$ (971)
2018	$ (971)
2019	$ 3,620
2020	$ 2,263
2021	$ 0
Thereafter	$ 0

Year ended December 31:	PERS 2/3
2017	$ (3,024)
2018	$ (3,024)
2019	$ 14,059
2020	$ 10,153
2021	$ 0
Thereafter	$ 0

Note 5 – RISK MANAGEMENT

The Port of Brownsville is a member of Enduris, Chapter 48.62 RCW authorizes the governing body of any one or more governmental entity to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. Enduris was formed July 10, 1987 when two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2010, there are 451 Enduris members representing a broad range of special purpose districts.

Enduris allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self insurance, and provide excellent risk management services and other related services. Enduris provides "occurrence" policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk" basis, blanket form using current Statement of Values. The property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost, automobile physical damage to insured vehicles. Boiler and machinery coverage is

Note 5 – RISK MANAGEMENT (Continued)

included on a blanket limit of $100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of $1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires insurance from unrelated insurance companies that is subject to a "per occurrence": $1,000,000 deductible on liability loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on liability loss; $250,000 deductible on property loss, the member is responsible for the first $1,000 of the deductible
amount of each claim, while Enduris is responsible for the remaining $249,000 on property loss. Enduris is responsible for the $4,000 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year, and must give notice 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.

A Board of Directors consisting of seven (7) board members governs Enduris. Its 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.

Note 5 – RISK MANAGEMENT (Continued)

The Port maintains insurance against most normal hazards in the following amounts:

September 1, 2016 through August 31, 2017

	Policy Limit	Deductible
Washington Government Entity Pool		
Comprehensive General Liability	$20,000,000	$1,000
General, Professional & Personal		
Auto Liability: Combined single limit	$20,000,000	$1,000
Hired & Non-owned & Temporary		
Substitute coverage		
Employment Practices Liability	$20,000,000	$1,000
Terrorism Liability		
Terrorist Liability	$500,000	$1,000
Aggregate for Pool	$1,000,000	$1,000
Automobile Physical Damage:	Per schedule on File with Enduris	
Property/Mobile Equipment, Boiler and Machinery		
Property:	Replacement cost on file with Enduris	
Mobile Equipment:	Per Schedule on file with Enduris	
Boiler & Machinery:	Per Schedule on file with Enduris	
Employee Dishonesty Blanket Coverage with Faithful Performance of Duty		
Per Occurrence	$25,000	$1,000
Aggregate	$25,000	$1,000
Colony Insurance Company		
Underground storage tank February 18, 2010 through February 18, 2011		
Each claim	$1,000,000	$1,000
Aggregate claim	$1,000,000	$1,000
Defense Costs:		
Aggregate Policy limit	$250,000	
Blanket property coverage	$350,000,000	

Note 6 - LONG-TERM DEBT

The Port of Brownsville issued general obligation (GO) bonds to refinance higher rate bonds that were issued in 1998. The current issue of GO bonds was issued in 2012 and 2013. These (GO) bonds are to be used for the rebuild of the marina. The annual requirements to amortize all debts outstanding as of December 31, 2016, including interest, are as follows:

The GO bonds currently outstanding are as follows:

Purpose:	Phase I was issued to be used for the initial work on the marina rebuild. Phase II was issued for the use of the marine rebuild completion.
Maturity Range:	There is only two outstanding bond issues, Phase I matures in December of 2031. Phase II matures in December of 2023.
Interest Rate:	The interest rate on Phase I is 3.25%. The rate on Phase II is 2.38%.
Original amount:	Phase I issue $1,800,000. Phase II issue $1,000,000.
Installments:	Varies between $45,000 and $240,000.

General Obligation Bonds		Principal	Interest	Total
Yrs. ending December 31:	2017	110,000	85,175	195,175
	2018	115,000	83,525	198,525
	2019	115,000	80,075	195,075
	2020	120,000	76,625	196,625
	2021	120,000	73,025	193,025
	2022-2026	800,000	299,550	1,099,550
	2027-2031	1,100,000	132,300	1,232,300
	Total	$2,480,000	$830,275	$3,310,275

The 2017 principal payment of $110,000 is listed as current portion of long-term obligations.

There is $93,078 in restricted assets of the Port. These assets represent sinking funds and reserve requirements per various debt instruments.

Unamortized debt issue costs are recorded as deferred charges and bonds are not displayed net of premium or discount.

Note 7 – CONTINGENCIES AND LITIGATION

The Port's financial statements include all material liabilities. There are no material contingent liabilities to record.

Note 8 – SUBSEQUENT EVENT

On April 20, 2017 the Port issue additional bonds in the amount of $1,120,000. The interest rate on this bond issuance is variable, ranging from 2% in 2018 to 4% for 2028 and beyond. The bonds will be completely paid off in 2036. However, they can be called at par on June 1, 2027.

Port of Brownsville
Notes to the Financial Statements
January 1, 2015 through December 31, 2015

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

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Brownsville was incorporated on April 7, 1920, and operates under the Laws of the State of Washington applicable to a Port District. The accounting and reporting policies of the Port of Brownsville conform to generally accepted accounting principles for local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies including identification of those policies which result in material departures from generally accepted accounting principles (GAAP).

a. Reporting Entity

The Port of Brownsville is a special purpose government entity that provides marina facilities to the general public and is supported primarily through user charges.

An elected three-member board governs the Port. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. (The Port of Brownsville has no component units.)

b. Basis of Accounting

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the Budgeting, Accounting and Reporting System Manual.

The Port uses the accrual basis of accounting where revenues are recognized only when earned and expenses are recognized when incurred. Purchases of capital assets are capitalized and long-term liabilities are accounted for in the appropriate funds.

The Port distinguishes operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services in connection with the Port's principal ongoing operations. The principal operating revenue of the Port are charges to customers for moorage fees. Operating expenses for the district include cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

The Kitsap County Treasurer is the custodian of the Port's cash and temporary investments. At December 31, 2015, the Kitsap County Treasurer was holding $818,123 in cash and short-term residual investments of surplus cash. The Port had petty cash on hand and credit card deposits outstanding of $700. Total unrestricted Cash as of December 31, 2015 was $725,493.

The Port District's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). As required by state law, all deposits and investments of the Port's funds are obligations of the State Treasurer's Investment Pool or deposits with Washington State banks and savings and loan institutions.

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. Receivables

The Property taxes receivable account consists of property taxes and related interest and penalties. Property taxes receivable were $10,055 as of December 31, 2015. (See Note 2)

3. Inventories

Inventories of gas and diesel are maintained on the first in, first out method (FIFO). The only inventory that the port has is fuel. The inventory is very small and is quickly sold, usually within a week, even in the Winter. The method of pricing inventory is cost.

4. Restricted Assets

In accordance with bond resolutions, separate restricted funds are required to be established. The assets held in the funds are restricted for the specific purpose of bond redemptions. At December 31, 2015, the Port had restricted funds of $92,631.

5. Capital Assets and Depreciation (See Note 3)

6. Compensated Absences

The Port accrues vacation and sick leave benefits when earned. At December 31, 2015, the liability for sick leave was $46,987. The liability for unpaid vacation benefits at December 31, 2015 was $29,334.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Prepaid Expenses

Costs relating to the sale of bonds are deferred and amortized over the lives of the various bonds. As of December 31, 2015, the non-amortized portion of these costs were $28,228.

8. Long-Term Debt (See Note 6)

9. Pensions (See Note 4)

The Port implemented Governmental Accounting Standards Board (GASB) *Statement No. 68, Accounting and Financial Reporting for Pensions*, in 2015. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, as well as information about the fiduciary net position of all state-sponsored pension plans and additions to and deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems (DRS). For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are recorded at fair value.

Note 2 - PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed twice a year to the Port by the County Treasurer, once in April and again in October.

Property Tax Calendar

January 1	Tax is levied and becomes an enforceable lien against properties.
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. A revaluation of all property is required every four years.
October 31	Second installment is due.

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible tax 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 cents per $1,000 of assessed valuation for general governmental services.

The Port's regular levy for 2015 was $0.306354 per $1,000 on an assessed valuation of $1,243,873,204 for a total regular levy of $380,497.

Note 2 - PROPERTY TAXES (continued)

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.

Note 3 – CAPITAL ASSETS AND DEPRECIATION

Capital Assets, which include property, plant, equipment and infrastructure assets are reported in the financial statements. Major expenditures for capital assets are defined as assets with an initial, individual cost of more than $2,000 and an estimated useful life in excess of 1 year. 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 acquisition value for donated assets.

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

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or 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.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method. Classes of assets are Land, Building and Equipment, Building and Equipment have assets with useful lives of 5 to 30 years. Depreciation expense for 2015 was $221,199.

Marina capital assets not being depreciated

Beginning Balances:	
Land	$336,517
Increases	-0-
Decreases	-0-
Work in Process	1,000,068
Total Marina capital assets not being depreciated	$1,336,585

Note 3 – CAPITAL ASSETS AND DEPRECIATION (continued)

Marina capital assets being depreciated

Beginning Balances:	
Structures and Improvements	$2,049,112
Marine Equipment	6,687,359
Machinery and Vehicles	62,035
Furniture and Office Equip	71,060
Increases:	
Structures and Improvements	859,711
Marine Equipment	1,236,935
Machinery and Vehicles	-0-
Furniture and Office Equip	-0-
Decreases:	
Structures and Improvements	-0-
Marine Equipment	-0-
Machinery and Vehicles	15,738
Furniture and Office Equip	16,717
Total Marina capital assets being depreciated	$10,933,757
Less accumulated depreciation for	
Structures and Improvements	1,163,884
Marine Equipment	4,297,545
Machinery and Vehicles	32,391
Furniture and Office Equip	20,073
Prior period adjustment, per audit	(159,413)
Total accumulated depreciation	$5,354,480
TOTAL MARINA CAPITAL ASSETS (NET)	$6,915,862

Useful lives and classes are as follows:

Structures and Improvements – 5-30 year lives
Marine Equipment – 5-30 year lives
Machinery and Vehicles – 5-10 year lives

Note 4 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts – All Plans

Pension liabilities	$ 314,588
Pension assets	$ 0
Deferred outflows of resources	$ 38,431
Deferred inflows of resources	$ 48,509
Pension expense/expenditures	$ 28,285

State Sponsored Pension Plans

Substantially all the Port's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380.

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

Public Employees' Retirement System (PERS)

PERS members include elected officials: state employees; employees of the Supreme, Appeals, and Superior courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 consecutive highest service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 20, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by the State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1	Employer	Employee*
Actual Contribution Rates:		
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

*For employees participating in JBM, the contribution rate was 12.26%.

The Port's actual contributions to the plan were $16,003 for the year ended December 31, 2015.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of

Note 4 - PENSION PLANS (continued)

service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a change to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits.

PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3	Employer 2/3	Employee 2*
Actual Contribution Rates:		
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

* For employees participating in JBM, the contribution rate was 15.30%.

The Port's actual cash contributions to the plan were $20,542 for the year ended December 31, 2015.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study.*

Note 4 - PENSION PLANS (continued)

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting,

the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report.*

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate

Note 4 - PENSION PLANS (continued)

requirements. (All plans use 7.7 percent expect LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	**Target Allocation**	**% Long-Term Expected Real Rate of Return Arithmetic**
Fixed Income	20%	1.7%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Note 4 - PENSION PLANS (continued)

Sensitivity of NPL

The table below presents the Port's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 203,479	$ 167,128	$ 135,870
PERS 2/3	431,181	147,460	(69,774)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Port reported a total pension liability of $314,588 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$167,128
PERS 2/3	$147,460

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	.003150%	.003195%	.000045%
PERS 2/3	.004056%	.004127%	.000071%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations*.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Note 4 - PENSION PLANS (continued)

Pension Expense

For the year ended December 31, 2015, the Port recognized pension expense as follows:

	Pension Expense
PERS 1	$ 10,166
PERS 2/3	$ 18,119

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 0	$ 0
Net difference between projected and actual investment earnings on pension plan investments	$ 0	$ 9,144
Changes of assumptions	$ 0	$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	$ 0	$ 0
Contributions subsequent to the measurement date	$ 8,777	$ 0
TOTAL	$ 8,777	$ 9,144

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 15,675	$ 0
Net difference between projected and actual investment earnings on pension plan investments	$ 0	$ 39,365
Changes of assumptions	$ 238	$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	$ 2,286	$ 0
Contributions subsequent to the measurement date	$ 11,455	$ 0
TOTAL	$ 29,654	$ 39,365

Note 4 - PENSION PLANS (continued)

Combined PERS 1 and PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 15,675	$ 0
Net difference between projected and actual investment earnings on pension plan investments	$ 0	$ 48,509
Changes of assumptions	$ 238	$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	$ 2,286	$ 0
Contributions subsequent to the measurement date	$ 20,232	$ 0
TOTAL	$ 38,431	$ 48,509

Deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2016	($3,544)
2017	($3,544)
2018	($3,544)
2019	$1,488
2020	$ 0
Thereafter	$ 0

Year ended December 31:	PERS 2/3
2016	($10,016)
2017	($10,016)
2018	($10,016)
2019	$ 9,551
2020	$ 0
Thereafter	$ 0

Note 5 – RISK MANAGEMENT

The Port of Brownsville is a member of Enduris, Chapter 48.62 RCW authorizes the governing body of any one or more governmental entity to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. Enduris was formed July 10, 1987 when two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2010, there are 451 Enduris members representing a broad range of special purpose districts.

Enduris allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self insurance, and provide excellent risk management services and other related services. Enduris provides "occurrence" policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk" basis, blanket form using current Statement of Values. The property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost, automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of $1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires insurance from unrelated insurance companies that is subject to a "per occurrence" $1,000,000 deductible on liability loss – the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on liability loss; $250,000 deductible on property loss, the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on property loss. Enduris is responsible for the $4,000 deductible on boiler and machinery loss. Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year, and must give notice 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.

A Board of Directors consisting of seven (7) board members governs Enduris. Its 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.

Note 5 – RISK MANAGEMENT (continued)

The Port maintains insurance against most normal hazards in the following amounts:

January 1, 2015 through December 31, 2015

	Policy Limit	Deductible
Washington Government Entity Pool		
Comprehensive General Liability	$10,000,000	$1,000
General, Professional & Personal		
Auto Liability: Combined single limit	$10,000,000	$1,000
Hired & Non-owned & Temporary		
Substitute coverage		
Employment Practices Liability	$10,000,000	$1,000
Terrorism Liability		
Terrorist Liability	$500,000	$1,000
Aggregate for Pool	$1,000,000	$1,000
Automobile Physical Damage:	Per schedule on File with Enduris	
Property/Mobile Equipment, Boiler and Machinery		
Property:	Replacement cost on file with Enduris	
Mobile Equipment:	Per Schedule on file with Enduris	
Boiler & Machinery:	Per Schedule on file with Enduris	
Employee Dishonesty Blanket Coverage with Faithful Performance of Duty		
Per Occurrence	$25,000	$1,000
Aggregate	$25,000	$1,000
Colony Insurance Company		
Underground storage tank February 18, 2010 through February 18, 2011		
Each claim	$1,000,000	$1,000
Aggregate claim	$1,000,000	$1,000
Defense Costs:		
Aggregate Policy limit	$250,000	
Blanket property coverage	$350,000,000	

Settlements related to claims against the insurance policy limits did not exceed coverage in the last 3 years.

Note 6 - LONG-TERM DEBT

The Port of Brownsville issued general obligation (GO) bonds to refinance higher rate bonds that were issued in 1998. The current issue of GO bonds was issued in 2012 and 2013. These (GO) bonds are to be used for the rebuild of the marina. The annual requirements to amortize all debts outstanding as of December 31, 2015, including interest, are as follows:

The GO bonds currently outstanding are as follows:

Purpose:	Phase I was issued to be used for the initial work on the marina rebuild. Phase II was issued for the use of the marine rebuild completion.
Maturity Range:	There is only two outstanding bond issues, Phase I matures in December of 2031. Phase II matures in December of 2036.
Interest Rate:	The interest rate on Phase I is 3.25%. The rate on Phase II is 2.38%.
Original amount:	Phase I issue $1,800,000. Phase II issue $1,000,000.
Installments:	Varies between $45,000 and $240,000.

General Obligation Bonds		Principal	Interest	Total
Yrs. ending December 31:	2016	110,000	86,825	196,825
	2017	110,000	85,175	195,175
	2018	115,000	83,525	198,525
	2019	115,000	80,075	195,075
	2020	120,000	76,625	196,625
	2021-2025	730,000	324,000	1,054,000
	2026-2030	1,050,000	171,275	1,221,275
	2031	240,000	9,600	249,600
	Total	$2,590,000	$917,100	$3,507,100

The 2016 principal payment of $110,000 is listed as current portion of long-term obligations.

There is $92,631 in restricted assets of the Port. These assets represent sinking funds and reserve requirements per various debt instruments.

Unamortized debt issue costs are recorded as deferred charges and bonds are not displayed net of premium or discount.

Note 7 – CONTINGENCIES AND LITIGATION

The Port’s financial statements include all material liabilities. There are no material contingent liabilities to record.

Note 8 – PRIOR PERIOD ADJUSTMENT AND CHANGE IN ACCOUNTING PRINCIPLE

The Port reported a prior period adjustment of $5,941 to beginning net position. This was to correct adjustments made to the prior financial statements that the Port later determined were not necessary.

The Port reported an adjustment to beginning net position of $324,666 to recognize the cumulative effect of the change in accounting principle for implementation of GASB 68.

Note 9 – SUBSEQUENT EVENT

On April 20, 2017 the Port issue additional bonds in the amount of $1,120,000. The interest rate on this bond issuance is variable, ranging from 2% in 2018 to 4% for 2028 and beyond. The bonds will be completely paid off in 2036. However, they can be called at par on June 1, 2027.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Port of Brownsville
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System Plan 1
As of June 30, 2016
Last 10 Fiscal Years*

		2015	2016
Employer's proportion of the net pension liability (asset)	%	31.950%	29.150%
Employer's proportionate share of the net pension liability	$	167,128	156,549
TOTAL	$	167,128	156,549
Covered payroll	$	366,213	347,258
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	45.64%	45.08%
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%	57.03%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Port of Brownsville
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System Plan 2/3
As of June 30, 2016
Last 10 Fiscal Years*

		2015	2016
Employer's proportion of the net pension liability (asset)	%	41.270%	37.39%
Employer's proportionate share of the net pension liability	$	147,460	188,256
TOTAL	$	147,460	188,256
Covered payroll	$	366,213	347,258
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	40.27%	54.21%
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%	85.82%

Port of Brownsville
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement Sysem Plan 1
As of June 30, 2015
Last 10 Fiscal Years*

		2015
Employer's proportion of the net pension liability (asset)	%	31.950%
Employer's proportionate share of the net pension liability	$	167,128
TOTAL	$	167,128
Employer's covered employee payroll	$	366,213
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	45.64%
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%

Port of Brownsville

Schedule of Proportionate Share of the Net Pension Liability

Public Employees' Retirement Sysem Plan 2/3

As of June 30, 2015

Last 10 Fiscal Years*

		2015
Employer's proportion of the net pension liability (asset)	%	0.004127%
Employer's proportionate share of the net pension liability	$	147,460
TOTAL	$	147,460
Employer's covered employee payroll	$	366,213
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	40.27%
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Sample Government
Schedule of Employer Contributions
Public Employees' Retirement System Plan 1
For the year ended December 31, 2016
Last 10 Fiscal Years*

		2015	2016
Statutorily or contractually required contributions	$	16,003	16,169
Contributions in relation to the statutorily or contractually required contributions*	$	(16,003)	(16,169)
Contribution deficiency (excess)	$	0	0
Covered payroll*	$	365,306	338,960
Contributions as a percentage of covered payroll	%	4.38%	4.77%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Sample Government
Schedule of Employer Contributions
Public Employees' Retirement System Plan 2/3
For the year ended December 31, 2016
Last 10 Fiscal Years*

		2015	2016
Statutorily or contractually required contributions	$	20,542	21,118
Contributions in relation to the statutorily or contractually required contributions*	$	(20,542)	(21,118)
Contribution deficiency (excess)	$	0	0
Covered payroll*	$	365,306	338,960
Contributions as a percentage of covered payroll	%	5.62%	6.23%

Port of Brownsville
Schedule of Employer Contributions
Public Employees' Retirement Sysem Plan 1
As of December 31, 2015
Last 10 Fiscal Years*

		2015
Statutorily or contractually required contributions	$	16,003
Contributions in relation to the statutorily or contractually required contributions	$	(16,003)
Contribution deficiency (excess)	$	0
Covered employer payroll	$	365,306
Contributions as a percentage of covered employee payroll	%	4.38%

Port of Brownsville
Schedule of Employer Contributions
Public Employees' Retirement Sysem Plan 2/3
As of December 31, 2015
Last 10 Fiscal Years*

		2015
Statutorily or contractually required contributions	$	20,542
Contributions in relation to the statutorily or contractually required contributions	$	(20,542)
Contribution deficiency (excess)	$	0
Covered employer payroll	$	365,306
Contributions as a percentage of covered employee payroll	%	5.62%

ABOUT THE STATE AUDITOR'S OFFICE

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

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

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov