



Port of Bremerton
Comprehensive Annual Financial Report
For the Fiscal Year Ended December 31, 2010



Creating Jobs and Opportunity for Kitsap

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***Comprehensive Annual
Financial Report***

For the Fiscal Year Ended December 31, 2010

**Prepared by Becky Swanson,
Chief Financial Officer**

**The Port of Bremerton
Bremerton, Washington**



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**Port of Bremerton
Comprehensive Annual Financial Report
For the Fiscal Year Ended December 31, 2010**

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SECTION 1

INTRODUCTORY





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Commissioners
Bill Mahan
Larry Stokes
Roger Zabinski

Chief Executive Officer
Cary Bozeman

Bremerton National Airport
(360) 674-2381

**Olympic View Business &
Industrial Park**
(360) 674-2381

Port Orchard Marina
(360) 876-5535

Bremerton Marina
(360) 373-1035

June 20, 2011

Commissioners and Chief Executive Officer
Port of Bremerton

Gentlemen:

The Comprehensive Annual Financial Report (CAFR) of the Port of Bremerton (the Port) for the fiscal year ended December 31, 2010 is hereby submitted for your review. This report includes an overview of the Port, detailed financial information as presented in our year-end audited financial statements, and statistical data relevant to the Port's operations. This report has been prepared by the Port's Finance Department who is responsible for its accuracy and presentation. Management believes this report fairly presents the Port's financial position and contains all material disclosures regarding the financial condition necessary to gain a full and complete understanding of the financial affairs of the Port.

The Port is legally required to have its financial statements audited annually by an independent accountant. The Port is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. The Port Commission has engaged the State of Washington's Auditors' Office to provide both financial and compliance audits on an annual basis. The Auditor's report related to the single audit, including the schedule of federal financial assistance, will be published in a separate report. When completed, the report will be available on the Port's website at www.portofbremerton.org.

The CAFR is presented in three sections: Introductory, Financial and Statistical. The Financial Section contains managements' discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A, which presents a narrative introduction, overview and analysis of the financial statements.

PROFILE OF THE PORT

The Port of Bremerton is a special purpose municipal corporation organized under the State of Washington Port Laws R.C. W. Title 53 and is governed by a three-member elected Commission. The Port was created in 1913 by a vote of the people of Kitsap County to ensure public ownership of our waterfront and to promote economic development.

The Port is a unique organization that makes significant contributions to the local community by using combined expertise in both the business and government sectors. The Port's revenues are generated from operations including airport, marinas and business and industrial park real estate, and general property tax levy. The Port is custodian to approximately 1,787 acres of land and 527,000 square feet of buildings, including Bremerton National Airport, Olympic View Business and Industrial Parks and the Port Orchard and Bremerton marinas.

The Port of Bremerton's mission is to fulfill the essential economic development needs of the district while providing leadership in maintaining Kitsap County's overall economic vitality through expansion of comprehensive facilities, programs and services, and increase the number of family-wage jobs.

ECONOMIC CONDITION

Local Economy

Information presented in the financial statements is best considered in the broader context of the economic environment in Kitsap County (Kitsap) and the surrounding area.

The Port of Bremerton is located in Kitsap County. Kitsap County has the sixth largest population in the State of Washington.

The county population has been steady, with slight growth, during the past decade. Bremerton and Port Orchard are the two largest cities in the Port district. The City of Bremerton has the largest population in the county. The county is also large geographically, with 398 square miles in area. Waterfront properties are abundant, with 211 miles of salt water shoreline and 33 miles of freshwater-lake frontage.

Kitsap County is a natural place for port districts (and there are 12 in the county) because the county has so much waterfront. The Port of Bremerton is the largest port district, is actively involved in economic development and has the most facilities with an industrial park, airport and two marinas.

Kitsap County is a mix of busy urban activity, rural serenity, business-friendly attitudes, rich history, and miles of spectacular waterfront. Kitsap County enjoys top-rated health care, strong cultural and educational facilities, low crime rates, incredible waterfront estates, and distinct communities tucked into the numerous waterfront "landings".

From certified organic vegetable farms and wineries, specialty and big box retail to technology-driven companies, defense contractors, manufacturing, and health, finance and architectural professional services, the economy of Kitsap County is very diverse and stable.

The US Navy is a key element for Kitsap County's stable economy with a growing number of companies in the technology, marine and manufacturing clusters contributing to continued economic growth. In 2004 alone, over 1,000 Navy-related jobs were added in the private sector to Kitsap's employment base. Fifty-four percent of all economic activity in the county is dependent on the Naval Bases (now under a single name, Naval Base Kitsap).

According to 2010 census statistics, there are 125,300 people with jobs in Kitsap County. As of March, 2011, the unemployment rate was declining and is currently 8.6%. Kitsap also has a well-educated work force with 25.8% of residents having a bachelor's degree or higher.

Military related and civilian employment at naval bases is approximately 33% of all employment in Kitsap County (OFM, 2004). Plus, the high number of military retirees in the county also contributes more than \$253.9 million in individual pension incomes to the county. (OFM, 2004) Health care has also been a rising economic factor in Kitsap County as Harrison Hospital has had steady growth and opened satellite hospitals and clinics around the county.

Education is another major employer in the county. There are five different school districts (each with administrative, teaching and skilled worker staffs) and Olympic College in Bremerton, which now offers some four-year degree programs in addition to its traditional two-year certificate programs.

Kitsap residents are able to take one of three different ferries each day to jobs in the Seattle metro area. Many professionals in the legal, medical and education professions work in Seattle and live in Kitsap County. Kitsap residents also use the ferry system to travel to the city for entertainment, sporting events and cultural opportunities not available locally.

There are significant differences in median household income between Kitsap and King County. Kitsap's median household income is \$60,500, compared to \$67,500 in King County. The lure of higher paying jobs is the reason why many Kitsap County residents commute to Seattle. If there were comparable numbers of higher-paying jobs, the exodus to and from King County would diminish.

Long-Term Financial Planning

The measure of success for the Port of Bremerton is how effectively it serves the community through providing services and facilities, promoting a sustainable economy, and undertaking successful custodial oversight of its assets and natural capital. On the resource side, the Port is different from other public agencies in that it does not rely solely on public funds, such as taxes, to fulfill a community purpose. The Port has access to limited public funds, but it also has the ability to engage in lines of business that earn financial returns. In this regard, the Port uses commercial means to accomplish public ends. The Port has established the following criteria to meet long-term financial goals in order to achieve its overall success in serving the community:

➤ Financial Standards

The Port Commission has adopted specific financial standards which guide the Port's operations, including:

- The Port will prepare one-year budgets and six-year capital plans.
- The Port will prepare Three-Year Strategic Operating Plans and Five Year Business Plans.
- The Port will continue to move toward financial self-sufficiency and reduce public tax dependency.
- The Port will fund operating activities first from user fees and lease revenues, then from general tax levy funds.
- The Port will use general tax levy funds for capital projects, keeping public purpose priorities, energy efficiency and minimum impact on the environment in the forefront.

➤ Financial Highlights

- 2010 operating loss before depreciation of \$1.6 million is an improvement of 6.5% over 2009, indicating a positive move toward becoming less tax dependent for operations.
- The Port has budgeted to spend nearly \$8.2 million in capital projects in 2011, subject to award of certain federal and state grants and appropriations.
- The Port expects to receive \$7.1 million in federal and state capital and operating grants in 2011.

Lines of Business

- **Airport**

The Bremerton National Airport (BNA) is a general aviation airport located southwest of downtown Bremerton, Washington. Commercial activity includes a full-service fixed base operator, as well as over 10 businesses, including UPS and Fed Ex mail and small package activity. Over 200 privately owned aircraft are based at BNA, of which 82 are housed in hangars leased from the Port. There are also 77 privately owned hangars on BNA property. The remaining aircraft are in Port rented tie-downs on the open tarmac.

Continued development of the Cross SKIA Connector Road opens the east side of the airport for property development. SKIA is one of nine centers designated for manufacturing development by Puget Sound Regional Council.

Airport revenues from hangar rentals and tie-downs in 2010 is flat compared to 2009 and accounted for 6.7% of total Port operating revenues.

- **Marinas**

The Port Orchard Marina provides 342 permanent slips and up to 100 slips for guest boaters, with a full service fuel dock. During boating season, Port Orchard Marina is about 97% occupied by permanent residents, with a waiting list for the most popular slip sizes.

In 2008, the Bremerton Marina opened as a key piece in the revitalization of the downtown Bremerton Harborside District. As a state-of-the art facility, the marina has 220 permanent slips, and room for 90 visiting boaters. Because of the economic downturn, occupancy of the marina, at 38%, is significantly below projections. Visiting boaters and planned weekend events continue to be strong and generate significant revenues during the summer boating season.

Marina revenues of \$1.6 million accounted for 50.1% of total 2010 Port operating revenues, an increase of 6% over 2009.

- **Industrial and Business Park**

Olympic View Business and Industrial Parks exist on 587 acres of industrial-zoned land inside the City of Bremerton. Within these parks, 27 businesses produce about 730 jobs. The Port owns eight buildings and leases a 25,500 square-foot building in the business park, with an overall vacancy rate in the two parks of 11 percent, which is below the county average in Kitsap County.

Three sites in the Northeast Campus are ready for lease, and more than 30 acres of leasable land offer easy access to roads and industrial infrastructure. A second phase is designed and awaiting permits.

Real estate rental revenues of \$1.4 million accounted for 42.3% of total 2010 Port operating revenues, 10.4% over 2009.

- **Community Access**

The Port operates a number of public-use facilities including parks, boat launches, piers and facilities for visitor use at the airport and marinas. The Port encourages public activity on Port properties and participates in numerous public events during the year including festivals, holiday events and boat shows.

Financial Management Information

- **Budgeting Controls**

Washington State Law, RCW 53.35.010 through 53.35.040, prescribes procedures for the preparation of annual budgets by port districts. In July and August each department director of the Port of Bremerton prepares a proposed budget to be reviewed with the Chief Financial Officer and Chief Executive Officer. The preliminary budget is provided to the Port Commission for comments. Final budgets are adopted by the Commission in November for the following calendar year. The final budget document, that includes amounts to be raised by taxation, is filed with the County Treasurer on or before the thirtieth day of November.

Budgetary control is maintained at the department level. Monthly departmental financial statements are produced comparing actual results to budgeted figures. These statements are analyzed and distributed to the Port Commission and senior management. Adjustments to budgeted amounts are approved by the Port Commission.

- **Cash Management and Investments**

The Commission has appointed the Chief Financial Officer as Treasurer. Current short-term investments consist of participation in the State of Washington Local Government Investment Pool. The investments are highly liquid and are protected against loss through depository and liability restrictions governed by the Washington Public Deposit Protection Commission. At December 31, 2010 the Port's cash and cash equivalents totaled \$ 7.8 million at market value.

- **Environmental Matters**

In order to identify and minimize environmental liabilities associated with both Port and tenant operations, the Port is conscientious in using environmental “best practices” in Port development and operations.

Typically, the environmental regulations that are most applicable to Port and tenant operations tend to be those that focus on the proper storage and handling of hazardous materials, permitted discharge of waste to storm water and sewer systems, air permits, and remediation of soil and groundwater contamination from past practices. Although the port’s environmental program is designed to ensure compliance with these regulations, in all circumstances, formal regulatory oversight and enforcement is performed by state and federal agencies, including the Washington State Department of Ecology, the U.S. Environmental Protection Agency, and the U.S. Army Corps of Engineers.

Environmental practices at the Port’s marinas, airport and industrial park have earned the highest level of recognition in the five-county Puget Sound region’s EnviroStars program. The Port has demonstrated leadership in Low-Impact Development practices, incorporating principles of water infiltration and pervious surfaces into the design of its road and paving projects. The Port has also implemented an energy efficiency program.

- **Internal Controls**

In developing and evaluating the accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable assurance regarding (1) the safeguarding of assets against loss from unauthorized use of disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe the internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

- **Planning and Development**

The Port continues its planning and development effort of its airport and industrial park assets by moving forward on infrastructure opportunities. The Port is partnering with the City of Bremerton on the SKIA Comprehensive Plan update, which is now ongoing and scheduled for completion in early 2012. Plans progress on continuing the next phase of the Cross SKIA Connector Road and securing funding for the construction phase. Business plan development for the east side of the airport is scheduled for late 2011 and complete update of airport master plan is scheduled for 2012 – 2013. The Port is also working with the City of Port Orchard to produce a Waterfront Master Plan, which will be the prime document guiding the future development of extensive Port properties on the city waterfront.

ACKNOWLEDGEMENTS

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire Port staff. The Port realizes its strong financial controls only through the significant contributions of its entire administrative staff. Special recognition needs to be given to the Finance Department staff for their responsibility in providing information to produce this document.

Finally, thanks to the Chief Executive Officer and the Port Commissioners for their interest and support in planning and conducting the financial operations for the Port in a responsible and progressive manner.

Sincerely,

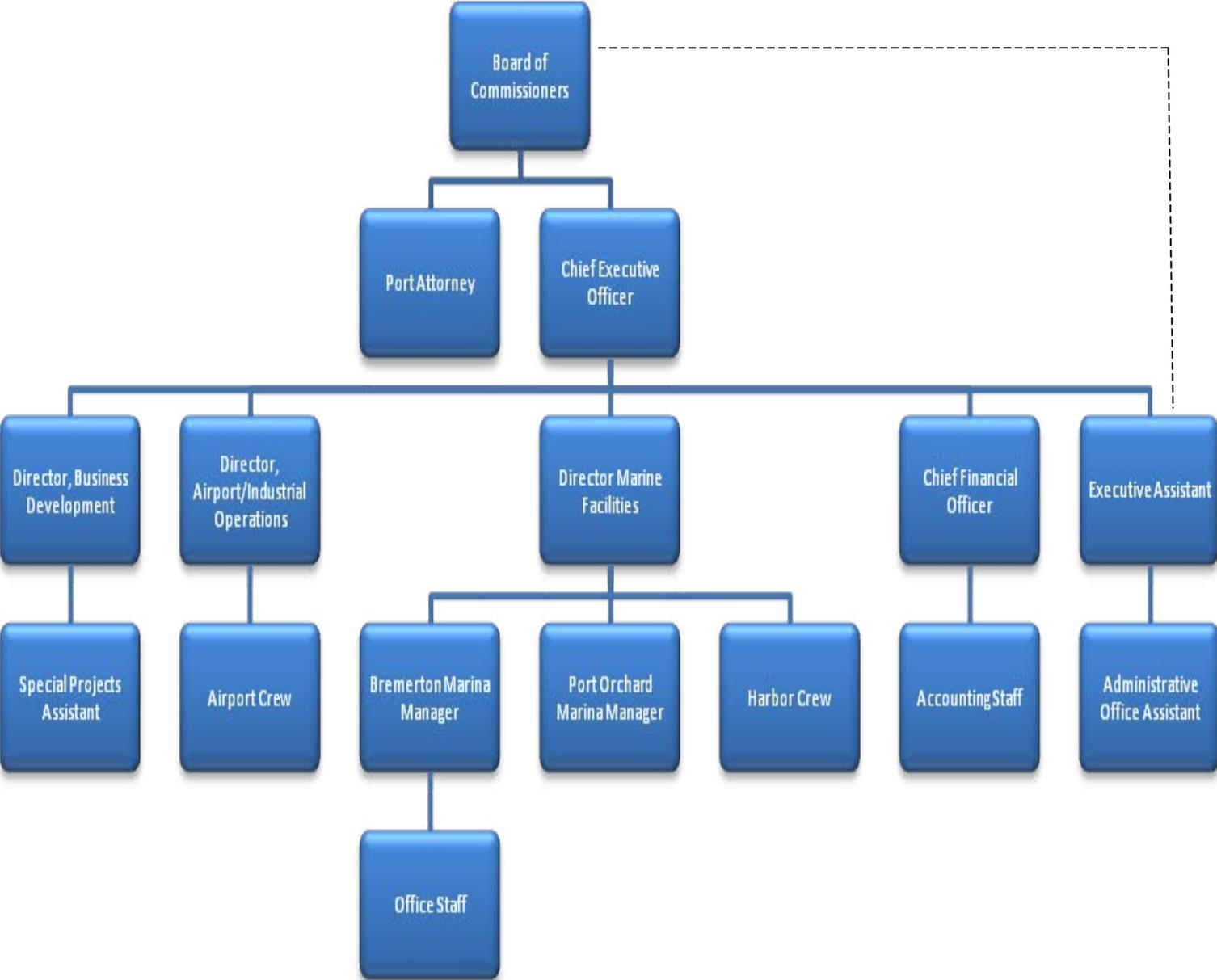
A handwritten signature in cursive script that reads "Becky D. Swanson".

Becky D. Swanson
Chief Financial Officer

**Port of Bremerton
List of Principal Officials
As of December 31, 2010**

<u>TITLE</u>	<u>NAME</u>
Commissioner	Bill Mahan
Commissioner	Larry Stokes
Commissioner	Roger Zabinski
Legal Council	Gordon Walgren
Chief Executive Officer	Cary Bozeman
Chief Financial Officer, Port Auditor	Becky Swanson
Director of Business Development	Tim Thomson
Director, Airport Operations	Fred Salisbury
Director, Marine Facilities	Steve Slaton

Port of Bremerton Organization Chart



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SECTION 2

FINANCIAL



Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT

June 20, 2011

Board of Commissioners
Port of Bremerton
Bremerton, Washington

We have audited the accompanying basic financial statements of the Port of Bremerton, Kitsap County, Washington, as of and for the year ended December 31, 2010 as listed in the table of contents. These financial statements are the responsibility of the Port's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port of Bremerton, Kitsap County, Washington, as of December 31, 2010, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will also issue our report dated June 20, 2011, 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. That report will be issued under separate cover in the Port's Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 13 through 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental



Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Port. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is written in a cursive style with a large, looping initial "B".

BRIAN SONNTAG, CGFM
STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years ended December 31, 2010 and 2009

INTRODUCTION:

This document is the Port of Bremerton's (Port) Management Discussion and Analysis (MD&A) of financial activities and performance for the calendar years ended December 31, 2010 and 2009. It provides an introduction to the Port's 2010 financial statements. Information contained in this MD&A has been prepared by Port management and should be considered in conjunction with the financial statements and the notes to the financial statements and notes.

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

OVERVIEW OF THE FINANCIAL STATEMENTS:

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

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

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

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

FINANCIAL ANALYSIS OF THE PORT

- Port assets exceeded liabilities by \$69.4 million at the close of 2010 and by \$63.9 million in 2009. Of this amount, \$61.3 million in 2010 and \$57.8 million in 2009 are invested in capital assets, net of related debt.
- The Port’s net assets increased in 2010 over 2009 by \$5,499,800, compared to the increase in 2009 over 2008 of \$7,249,994. The 2010 increase is primarily an increase in capital assets, net of debt.
- The Port’s long-term debt decreased by \$3,802,474 in 2010, while it increased in 2009 by \$1,242,962. The 2010 decrease is primarily the debt redeemed on the bonds and loans, netted against the final \$64,471 received from CERB on the Port’s waterline project. The 2009 increase was a combination of \$4,425,000 of new bonds sold and a new \$300,000 low interest CERB loan for infrastructure, less the principal payments made on the 2006 and 1999 general obligation bond issues. The final principal payment on the 1999 bond issue was made in 2009.
- Operating revenues for 2010 and 2009 totaled \$3,236,728 and \$3,013,222 respectively.
- Operating expenses totaled \$7,468,108 for 2010 and \$7,259,568 for 2009.

PORT OF BREMERTON’S CONDENSED STATEMENT OF NET ASSETS:

	2010	2009
Current assets	\$ 4,406,042	\$ 3,158,571
Restricted assets	4,636,284	4,008,304
Net capital assets	73,700,458	* 73,752,814
Other assets	130,024	133,502
Total assets	\$ 82,872,808	\$ 81,053,192
Current liabilities	\$ 4,594,923	**\$ 4,472,634
Long-term liabilities	8,832,417	*/** 12,634,890
Other liabilities	0	0
Total liabilities	\$ 13,427,340	\$ 17,107,524
Net assets:		
Invested in capital assets net of debt	\$ 61,357,709	\$ 57,850,558
Restricted net assets	4,636,284	4,008,304
Unrestricted net assets	3,451,475	2,086,806
Total net assets	\$ 69,445,468	\$ 63,945,668
Total Liabilities and Net Assets	\$ 82,872,808	\$ 81,053,192

Restated for comparative purposes *Removed Remediation Costs for marina property, **Separated long and short term portion of compensated absences

PORT OPERATING FINANCIAL ACTIVITY:

As noted earlier, the Port uses only one fund, an enterprise fund, to comply with Washington State mandated reporting requirements. The Port's operations consist of airport and industrial park operations, land and building leases, and operating a variety of recreational facilities. Of the recreational facilities, the Port Orchard and Bremerton marinas produce the largest portion of revenue from these sources. The remaining recreational facilities, such as boat ramps and parks, etc. produce little to no revenue. The following summary represents the 2010 operating results to budget:

Revenues: In 2010 operating revenues fell 6.8% below budgeted revenues or \$235,061 short of budget. Because of the economic downturn, and poor real estate market, the Olympic View Business Park facility was only partially leased during both 2010 and 2009. In 2010, the Business Park was accounted for as a separate operating unit, and showed a shortfall of \$86,052 (40.5%) in budgeted revenue. Permanent and transient moorage were also below budget in 2010 and 2009. In 2009 operating revenues were below budget by 10.8% or \$365,145.

Expenses: 2010 operating expenses were \$797,648 (14.2%) below budget, attributed to:

- Airport – lower wages and benefits, less advertising costs, lower utilities and G & A allocation.
- Industrial Park / Business Park – lower wages and benefits than budgeted, less B & O tax and lower G & A allocation. The Business Park did not incur costs to sublease the vacant facility leased in 2010.
- Harbor – lower payroll related expenses, structures & operational costs and less G & A allocation.
- Clean Tech - Planned programs were not implemented in 2010.
- General and Administrative – Less outside services and consultants were used during 2010 and future business development opportunity budget category was not used.

The 2009 operating expenses were \$1,256,379 (21.0%) below budget.

Non-Operating: Non-operating revenues fell slightly below budget in 2010 by 1.7%, a shortfall of \$131,322, with other non-operating expenses of \$81,284 (11.7%) below budget. In 2009, non-operating revenues fell below budget by \$8,918, less than 1%, with non-operating expenses \$56,268 below budget. Interest expense exceeded budget in 2010 by \$31,285 (5%) because of a loan amortization schedule revision made by the lender after budgets were final and exceeded budget by \$5,790 (1%) in 2009.

Increase in Net Assets: The increase in net assets (net income) for 2010 is \$5,499,800 and \$7,249,994 for 2009, a result of significant investment in capital assets in both years, offset in 2009 by increased bond debt.

**PORT OF BREMERTON'S CONDENSED STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS:**

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Airport operations	\$ 217,595	\$ 217,646
Marina Operations	1,647,755	1,552,448
Property lease/rental operations	1,370,761	1,241,556
Other	617	1,572
Total Operating Revenues	3,236,728	3,013,222
Non-operating Revenues		
Ad valorem tax revenues	7,860,705	7,908,740
Investment income	22,095	39,935
Other non-operating income	155,750	137,986
Total Non-operating Revenues	8,038,550	8,086,661
Total revenues	11,275,278	11,099,883
Operating expenses	7,468,108	7,259,568
Non-operating expenses	615,535	697,108
Total expenses	8,083,643	7,956,676
Excess	3,191,635	3,143,207
Capital contributions	2,308,492	4,108,148
Special and extraordinary items	(327)	(1,361)
Change in net assets	\$ 5,499,800	\$ 7,249,994
Beginning net assets	63,945,668	56,884,422
Prior period adjustment	0	(188,748)
Ending net assets	\$69,445,468	\$63,945,668

The Port's overall financial position improved in both 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>
Increase (Decrease)		
Total Asset	\$1,819,616	\$ 7,725,692
Total Liabilities	(3,680,184)	664,448
Net Income	(1,750,194)	1,032,766

CAPITAL ASSETS:

The Port's capital asset investment at the end of 2010 is \$73,700,458, net of accumulated depreciation and \$73,752,814 for 2009. Capital assets consist of land, buildings, machinery and equipment, and construction in progress. See Note 4 of the Notes to Financial Statements.

The Port purchased a waterfront parcel adjacent to the Bremerton marina for \$3,500,000 in 2009, for the purpose of providing parking to the marina tenants. The property contains underground contamination, with estimated remediation costs ranging between approximately \$210,000 to \$390,000. Please see Note 12 for further information.

In 2009 the Port of Bremerton turned down a \$2.583 million matching grant to be used for construction of the Sustainable Energy Economic Development (SEED) Incubator building project, to construct and operate a sustainable high-technology business park that minimizes impacts to natural, energy and infrastructure resources, and to provide high quality jobs and economic development in Kitsap County. After an in-depth review to assess project costs it was determined not feasible in 2009 to complete the project as originally intended.

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

DEBT ADMINISTRATION:

The Port has outstanding general obligation debt at December 31, 2010 of \$11,710,000 compared to \$15,380,000 in 2009. The Port issued \$4,425,000 in 20 year general obligation bonds in 2009 with a Moody's Investment Service bond rating of Aa2, while the 1999 bond issue matured. The Port imposed a six-year Industrial Development District tax levy beginning in 2007, to be used to pay the debt service on the 2006 Bond Issue, which will be fully paid in 2012.

The Port's \$432,000 low interest loan through CERB (Community Economic Revitalization Board) was used as a funding source for the FBO (Fixed Base Operator) building at the airport. The repayment schedule for this loan began in January 2005 and continues through January 2024. The balance at December 31, 2010 and 2009 respectively were \$326,405 and \$345,241. Funds from a low interest \$364,471 CERB loan were received at the end of 2009 and beginning of 2010 for infrastructure at the Bremerton National Airport. The Port purchased rental property in 2005 for \$264,000, with a December 31, 2010 outstanding balance of \$242,038, and \$246,016 in 2009. See Note 8 of the Notes to Financial Statements.

2011 BUDGET:

The Port's 2011 budget anticipates Operating Revenues to grow by 4.8% percent over comparable numbers for 2010. Operating expenses are budgeted to grow at approximately 15% percent. The loss from Port operations before depreciation and

before the general tax levy (partially used for operations) is anticipated to be approximately \$2.2 million. After including the general tax levy, income is \$849,665.

\$934,400, net of anticipated grants, is required in 2011 for capital projects. This total includes various capital improvements in airport, marinas and real estate projects. Many of these projects are complex and are anticipated to occur over multiple years and are currently in various stages of planning, design and permitting.

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

REQUEST FOR INFORMATION:

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

PORT OF BREMERTON
STATEMENT OF NET ASSETS
December 31, 2010

ASSETS	<u>12/31/10</u>
CURRENT ASSETS:	
Cash and cash equivalents (Note 1 and 2)	\$ 3,182,835
Restricted cash and cash equivalents (Note 1 and 2)	4,636,284
Investments (Note 2)	
Taxes receivable (Note 3)	540,909
Accounts receivable (Note 1) (net of allowance for uncollectibles)	132,312
Customer deposits	202,292
Other receivables	105,519
Inventory (Note 1)	46,132
Prepaid expenses	196,043
TOTAL CURRENT ASSETS	9,042,326
NONCURRENT ASSETS:	
Capital assets not being depreciated (Note 4)	
Land	7,139,948
Construction in progress	5,320,787
Capital assets being depreciated (Note 4)	
Buildings & structures	40,861,051
Machinery and equipment	1,717,773
Marina and other improvements	45,473,000
Less: Accumulated depreciation	(26,812,102)
TOTAL NET CAPITAL ASSETS	73,700,457
Deferred charges (Note 1)	130,024
TOTAL NONCURRENT ASSETS	73,830,481
TOTAL ASSETS	\$ 82,872,808

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF BREMERTON
STATEMENT OF NET ASSETS
December 31, 2010

LIABILITIES AND NET ASSETS	<u>12/31/10</u>
CURRENT LIABILITIES:	
Warrants payable	\$ 67,829
Accounts payable	118,582
Accrued expenses	391,923
Accrued interest payable	52,603
Current portion of long-term debt (Note 8)	3,963,986
TOTAL CURRENT LIABILITIES	4,594,923
 NONCURRENT LIABILITIES:	
General obligation bonds (Note 8)	7,826,678
CERB loans (Note 8)	654,851
Note payable (Note 8)	237,046
Employee leave benefits (Note 1)	113,842
TOTAL NONCURRENT LIABILITIES	8,832,417
TOTAL LIABILITIES	\$ 13,427,340
 NET ASSETS:	
Invested in capital assets, net of related debt	61,357,709
Restricted	4,636,284
Unrestricted	3,451,475
TOTAL NET ASSETS	\$ 69,445,468

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MCAG No. 1729

PORT OF BREMERTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For Year Ended December 31, 2010

	<u>12/31/10</u>
OPERATING REVENUES:	
Airport operations	\$ 217,595
Marina operations	1,647,755
Property lease/rental operations	1,370,761
Other	617
TOTAL OPERATING REVENUES	<u>3,236,728</u>
OPERATING EXPENSES:	
General operations	3,946,685
Maintenance	246,448
General and administrative	640,938
Depreciation (Note 4)	2,634,037
TOTAL OPERATING EXPENSES	<u>7,468,108</u>
Income (Loss) from Operations	(4,231,380)
NONOPERATING REVENUES (EXPENSES):	
Investment earnings	22,095
Taxes levied for:	
Port operations (Note 3)	2,965,509
Debt service principal/interest (Note 3)	326,020
Industrial Development District (Note 3)	4,569,176
Gain (loss) on disposition of assets	(1,672)
Interest expense	(615,535)
Other nonoperating revenues (expenses)	157,422
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>7,423,015</u>
Capital contributions	2,308,492
Extraordinary items - revenue (expense) (Note 13)	(327)
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 5,499,800</u>
Net Assets - beginning	\$ 63,945,668
Increase (decrease) in net assets	5,499,800
Ending net assets	<u>\$ 69,445,468</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

**Port of Bremerton
Statement of Cash Flows
For the year ended December 31, 2010**

	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,185,420
Cash paid to suppliers for goods and services	(2,099,831)
Cash paid to employees for services	(2,708,037)
Net cash used by operating activities	<u>(1,622,447)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Property tax receipts	2,976,111
Misc. Non-operating revenues	157,422
Misc. Non-operating expenses	11,780
Net cash provided (used) by non-capital financing activities	<u>3,145,313</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(2,655,292)
Contributions in Aid of Construction	2,487,570
Bond / Loan Proceeds	64,471
Principal paid on bonds	(3,712,641)
Interest paid on bonds	(624,246)
Property tax receipts for capital assets	4,895,197
Net cash provided by (used in) capital and related financing activities	<u>455,058</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received on investments	22,095
Net increase in cash and cash equivalents	<u>2,000,019</u>
CASH AND CASH EQUIVALENTS	
Beginning of year	6,021,391
End of year	<u><u>8,021,410</u></u>

**RECONCILIATION OF OPERATING LOSS TO NET CASH USED
BY OPERATING ACTIVITIES**

Net (loss) from operations	\$ (4,231,380)
Adjustment to reconcile net operating income (loss) to net cash provided by operating activities:	
Depreciation	2,634,037
(Increase) decrease in accounts receivable (net)	(71,619)
(Increase) decrease in fuel inventory	3,733
(Increase) decrease in prepayments	2,775
Increase (decrease) in warrants payable	(7,538)
Increase (decrease) in accounts payable	22,845
Increase (decrease) in customer deposits	20,311
Increase (decrease) in accrued expenses	4,389
 Net Cash From (Used by) Operating Activities	 (1,622,447)

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

PORT OF BREMERTON

Notes to Financial Statements

January 1, 2010 Through December 31, 2010

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Port of Bremerton was incorporated in October 1913 and operates under the laws of the State of Washington applicable to a Port District. The financial statements of the Port have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments. The Port has elected to apply Financial Accounting Standards Board (FASB) guidance issued after November 20, 1989, to the extent that it does not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

In June 1999, GASB approved Statement 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments*. This and consecutive statements are reflected in the accompanying financial statements (including notes to financial statements).

A. Reporting Entity

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

The Port is governed by an elected three member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Port has no component units.

B. Basis of Accounting and Presentation

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

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

their operating, noncapital financing, capital and related financing and investing activities.

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

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

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

Use of Estimates

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

Significant Risks and Uncertainties

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

C. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

The Port acts as its own treasurer. It is the Port's policy to invest all temporary cash surpluses. At December 31, 2010, the Port was holding \$7,819,119 in short-term residual investments of surplus cash. This amount is classified on the statement of net assets as cash and cash equivalents.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during 2010 were approximately \$151,509.

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

2. Short-Term Investments – See Note 2.

3. Receivables

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

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

Receivables have been recorded net of estimated uncollectible amounts. Because property taxes and special assessments are considered liens on property, no estimated uncollectible amounts are established. Estimated uncollectible amounts for other receivables are \$8,519 at December 31, 2010.

4. Amounts Due To and From Other Governments

The Port has an unrecorded receivable for reimbursable costs related to the design and construction costs of the Passenger Only Ferry Operations Float and Service Float in Bremerton in the amount of \$2,921,037, adjusted annually by applying the Consumer Price Index. The receivable is conditioned upon regularly scheduled full daily passenger only ferry service operating from the Bremerton ferry terminal. An Interlocal Agreement and Memorandum of Agreement have been executed. Because there is no determinable time period that this receivable will be collected, it has not been recorded in the financial records of the Port.

5. Inventories

Inventories for retail and fuel sales are valued by the FIFO method (which approximates the market value).

6. Restricted Assets

In accordance with bond resolutions and certain related agreements, separate restricted accounts are required. These accounts contain resources for construction and debt

service. Specific debt service reserve requirements are described in Long-Term Debt and Leases Note 8.

The restricted assets are composed of the following:

Restricted Current Assets, Cash and Cash Equivalent – Debt Service	\$ 1,230,673
Restricted Current Assets, Cash and Cash Equivalents – Bond Proceeds	841,368
Restricted Current Assets, Cash and Cash Equivalents-Reserves	<u>2,564,243</u>
Total Restricted Assets	\$ 4,636,284

7. Capital Assets and Depreciation - See Note 4.

8. Deferred Debits

In accordance with generally accepted accounting principles for regulated businesses, the Port has deferred costs of \$130,024 in 2010, comprised of the remaining balance due of \$111,232 with the City of Bremerton for transfer of the Port’s Water Distribution System, which is to be reduced by services rendered by the City in lieu of payment and the remainder from deferred real estate lease broker fees.

9. Compensated Absences

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

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

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

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

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

10. Other Accrued Liabilities

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

11. Long-Term Debt – See Note 8.

NOTE 2 – DEPOSITS AND INVESTMENTS

DEPOSITS

The Port’s deposits and certificates of deposit 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).

INVESTMENTS

As of December 31, 2010, the Port had the following short term investments with the Local Government Investment Pool (LGIP), which are considered cash or cash equivalent:

Local Government Investment Pool \$7,641,314

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

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

NOTE 3 – PROPERTY TAXES

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

Property Tax Calendar

January 1 Taxes are levied and become an enforceable lien against properties.
February 14 Tax bills are mailed.

April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment payment is due.

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

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

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

The Port's regular and debt service levy for 2010 was \$.3243 per \$1,000 on an assessed valuation of \$10,170,291,897 for a total regular levy of \$3,298,564. In 2009, the regular levy was \$3,270,296.

The second six-year Industrial Development District tax levy imposed by the Port is not subject to the limitations listed above. In 2010, the Port levied an additional \$.4500 per \$1,000 for the expansion of the Bremerton Marina and for other capital projects as approved by the Port Commission for a total additional levy of \$4,576,631. In 2009, the Port levied an additional \$4,639,033.

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

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

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

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

When an asset is sold, retired, or otherwise disposed of, the original cost of the property and the cost of installation, less salvage, is removed from the Port's capital asset accounts, accumulated depreciation is charged with the accumulated

depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

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

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 two to forty years.

B. Capital assets activity for the year ended December 31, 2010, was as follows:

	BEGINNING ASSET BALANCE January 1, 2010	ADDITIONS	DELETIONS	ENDING ASSET BALANCE December 31, 2010
Capital assets, not being depreciated:				
Land	\$ 7,139,948	\$ 0	\$ 0	\$ 7,139,948
Construction in progress	7,301,772	2,620,300	4,601,285	5,320,787
Total capital assets, not being depreciated	14,441,720	2,620,300	4,601,285	12,460,735
Capital assets being depreciated:				
Buildings & structures	40,541,547	319,503		40,861,051
Machinery and equipment	1,664,121	80,543	26,891	1,717,773
Marina and Other Improv.	41,308,608	4,165,320	928	45,473,000
Total capital assets being depreciated	83,514,276	4,565,366	27,818	88,051,824
Less accumulated depreciation for:				
Buildings & structures	13,479,607	1,209,736	0	14,689,343
Machinery and equipment	1,223,409	112,943	24,189	1,312,163
Marina and Other Improv.	9,500,166	1,311,358	928	10,810,596
Total accumulated depreciation	24,203,182	2,634,037	25,117	26,812,102
Total capital assets, being depreciated, net	59,311,094	1,931,329	2,701	61,239,722

C. Construction Commitments

The Port has active construction projects as of December 31, 2010. The projects include: Cross SKIA connector road, wildlife fencing, Business Park main arterial road and terminal improvements.

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

Project	Spent To Date	Remaining Commitment
Clean Tech POD 1 Phase 1	\$ 404,657	\$ 0
SKIA/SR3 Access Road Study, Design, Construction	3,473,105	99,687
Clean Tech Incubator	1,292,843	0
AIP 24 Fencing	35,858	22,246
OVBP Main Arterial Road	85,000	0
Terminal Remodel	19,540	33,193
Port Orchard Pile Repair	1,500	0
OVIP 5 Tenant Improvements	1,936	0
OVBP Tenant Improvements	<u>6,348</u>	<u>4,370</u>
	\$ 5,320,787	\$ 159,496

Of the committed balance of \$159,496, the Port will not be required to raise funds in future financing.

NOTE 5 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 6 – PENSION PLANS

Substantially all of 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 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, PO Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

The following disclosures are made pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

Plan Description

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

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges; college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2% of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60% of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) is granted at age 66 based upon years of services times the COLA amount, which is increased 3% annually. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer

Price Index. The adjustment is capped at 3% annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2% of the AFC for each year of service reduced by 2% for each year that the member's age is less than 55. The total benefit is limited to 60% of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance is granted at age 66 based upon years of service times the COLA amount (based on the consumer Price Index), capped at 3% annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military, if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2% of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 % annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions. Effective July 22, 2007, said refund (adjusted as needed for specified legal reductions) is increased from 100% to 200% of the

accumulated contributions if the member's death occurs in the uniformed service to the United States while participating in *Operation Enduring Freedom* or *Persian Gulf*, *Operation Iraqi Freedom*.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1% of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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

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

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

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

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

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on

years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3% annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while service the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not a normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the department of Labor and Industries.

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

There are 1,189 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans as of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	74,857
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,074
Active Plan Members Vested	105,339
Active Plan Members Non-vested	<u>53,896</u>
Total	262,166

Funding Policy

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

required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Director of the Department of Retirement Systems sets Plan 3 employee contribution rates. Six rate options are available ranging from 5% to 15%; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2010, are as follows:

Members not participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	5.31%**	5.31%**	5.31%***
Employee	6.00%****	3.90%****	*****

*The employer rates include the employer administrative expense fee currently set at 0.16%.

**The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

****The employee rate for state elected officials is 7.50% for Plan 1 and 3.90% for Plan 2.

*****Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2010	\$ 0	\$ 83,171	\$ 16,513
2009	2,435	102,111	21,748
2008	8,753	90,217	21,119

Deferred Compensation Plans

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

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

NOTE 7 – RISK MANAGEMENT

The Port participates in the Pacific Northwest Port Association Group, comprised of eight ports to go to the property and liability insurance market for its insurance needs to take advantage of group size to obtain efficiencies in insurance costs. Each member of the group obtains individual policies and individual premiums for its coverage. There is no sharing of risks or claims.

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

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

NOTE 8 – LONG-TERM DEBT AND LEASES

A. Long-Term Debt

The Port issued general obligation bonds in 2006 to finance the construction of the Bremerton marina and in 2009 for the purchase of property adjacent to the marina. The Port is also liable for low interest CERB loans to finance the construction of the FBO building and a waterline project. It is also liable for a note payable that was entered into for the purchase of real property.

The general obligation bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
2006 Series – Rebuilding and expanding Bremerton and other Capital Projects	2012	3.55%-5.75%	\$17,575,000	\$ 3,965,525
2009 Series – Purchase of waterfront property adjacent to Bremerton marina	2029	1.75%-4.30%	\$ 4,425,000	\$ 324,243

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

Year Ending December 31	2006 Series		2009 Series		Other Contracts	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	3,650,000	315,125	165,000	157,843	41,017	28,773
2012	3,795,000	169,225	170,000	151,243	41,524	26,169
2013			180,000	144,443	42,551	25,143
2014			180,000	141,293	265,021	20,744
2015			185,000	137,333	38,845	9,855
2016-2020			1,010,000	605,200	206,274	37,226
2021-2025			1,210,000	402,975	199,190	16,022
2026-2029			1,165,000	127,710	98,491	2,984
Total	\$ 7,445,000	\$ 484,350	\$ 4,265,000	\$ 1,868,040	\$ 932,914	\$ 166,917

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

At December 31, 2009, the Port's assessed value and limitation of unvoted general obligation debt are as follows:

Total Taxable Property Value	\$ 9,805,234,893
General Purpose Indebtedness Available Without a Vote	\$ 24,513,087
Indebtedness Incurred	<u>11,412,241</u>
Margin of Indebtedness Available Without a Vote	<u>\$ 13,100,846</u>

Unamortized debt issue costs are recorded as deferred charges and bonds are displayed net of premium or discount. Annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

At December 31, 2010, the Port had \$1,230,673 available in reserves as required by bond indebtedness.

The Port issued \$4,425,000 General Obligation Bonds on September 30, 2009 to purchase a waterfront parcel adjacent to the Bremerton marina for \$3,500,000 to be used for parking. The remaining bond proceeds, which are invested in the State of Washington Local Government Investment Pool, are to be used for other projects as approved by the Port Commission. After issue costs of \$123,032 for underwriting, rating, insurance, legal and other issue costs, the Port received proceeds of \$4,301,968. An Aa2 rating was assigned by Moody's Investment Service at the time the bonds were

issued. The bonds are to be paid from a designated portion of the regular property tax levy.

On October 10, 2006, the Port issued \$17,575,000 in General Obligation Bonds, with an average interest rate of 3.82%. The bonds sold at a premium of \$334,553, with net proceeds of \$17,730,096 to the Port after payment of \$179,457 in underwriting, rating, insurance and legal fees and other issuance costs. The bond issue was assigned an A2 rating by Moody's Investment Service. These funds were used for the expansion of the Bremerton marina. The bonds are to be paid through collection of a six-year Industrial Development District tax levy.

The Port is required to comply with certain requirements of the Internal Revenue Code of 1986, after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with arbitrage rebate requirements to the extent applicable to the Bonds. The Port has covenanted in the Bond Resolution to comply with those requirements, but if the Port fails to comply, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds.

B. Operating Leases

The Port leases office space in the Norm Dicks Government Center from the Kitsap County Housing Authority (KCCHA) under a non-cancelable operating lease. The KCCHA sublease for 73.3% of the space was cancelled effective October 6, 2009 as a condition of the waterfront property purchase from KCCHA. In 2010, two, three month Use Agreements were executed between the parties and on January 1, 2011 KCCHA entered into a 3 year sublease with two, three year extensions. The total lease cost in 2010 was \$20,983 (net of \$5,938 paid by KCHHA).

The Port executed a 10 year lease on a newly constructed 24,000 square foot building in the Olympic View Business Park, taking possession of the building in January, 2008. The lease is expressly conditioned and contingent upon a 65 year lease for the 3 acre real property upon which the building stands. The Port subleased a portion of the building to a defense contractor in 2009 and began negotiations in 2010 for the remainder of the building. The total lease cost in 2010 was \$241,149.

The Port leases other office equipment under operating leases that expire in 2012, with a total lease cost in 2010 of \$5,583.

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

Year Ending December 31	KCCHA Amount	Olympic View Amount	Office Equipment	Total
2011	\$ 27,749	\$ 237,402	\$ 5,853	\$ 271,004
2012	28,537	237,402	1,604	267,543
2013	29,283	237,402		266,685
2014	30,371	237,402		267,773
2015	31,480	237,402		268,882
2016-2020	174,360	484,696		659,056
2021-2025	183,171			183,171
2026-2030	183,421			183,421
2031-2034	127,738			127,738
Total	\$816,110	\$1,671,706	\$ 7,457	\$ 2,495,273

The Port currently has Washington State Department of Natural Resource (DNR) land leases in a holdover month-to-month status, and is actively in the process of finalizing 30 year agreements with DNR, retroactive to December 1, 2010. The holdover status calls for lease payments of \$28,371 adjusted annually by the Consumer Price Index – All Urban Consumers for the Seattle-Everett region, except for each four years when the non water-dependent annual rent will be revalued to reflect the then-current fair market value. The leases pending final negotiation are:

Land Leases				
December 31, 2010				
LESSOR	DATE OF LEASE	LEASE NUMBER	ANNUAL RENT	LAND RENTED
Dept of Natural Resources	12/1/10	2235A	\$ 3,238	Port Orchard Marina
Dept of Natural Resources	12/1/10	9891	11,363	P.O. Marina Parking
Dept of Natural Resources	12/1/10	2234	2,089	Port Orchard Area North of Old Post Office
Dept of Natural Resources	12/1/10	2736	8,305	Bremerton
Dept of Natural Resources	1/1/06	2544	<u>3,376</u>	Water St Boat Ramp
Total			\$28,371	

C. Changes in Long-Term Liabilities

During the year ended December 31, 2010, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/10	Additions	Reductions	Ending Balance 12/31/10	Due Within One Year
Bonds payable:					
L.T.G.O. Bonds	\$15,380,000	\$ 0	\$3,670,000	\$11,710,000	\$3,815,000
Deferred Premium/Discount	<u>48,495</u>	<u>0</u>	<u>19,827</u>	<u>68,322</u>	
Total Bonds Payable	\$15,331,505	\$ 0	\$3,689,827	\$11,641,678	
Loans/Notes Payable	891,257	64,471	22,814	932,914	41,017
Compensated Absences	<u>210,342</u>	<u>196,330</u>	<u>184,862</u>	<u>221,811</u>	107,969
Total Long Term Liabilities	\$16,433,104	\$ 260,801	\$3,897,502	\$12,796,403	

NOTE 9 – CONTINGENCIES AND LITIGATION

The Port has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the Port will have to make payment. The Port participates in a number of federal and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Port management believes that such disallowances, if any, will be immaterial.

There is no significant litigation pending. As a result of contractor malfeasance, the Port is seeking reimbursement for damages incurred involving the construction of Port facilities. Reimbursement is expected to come from restitution in a criminal case involving the contractor in question as well as a judgment in connection with a civil action brought by the Port against the contractor. Additionally, the Port seeks relief from the federal bankruptcy proceedings initiated by the contractor in question. The total obligation owing to the Port is \$287,068 of which approximately \$1,490 has been collected.

In February, 2010, a longstanding tenant of the Port filed Chapter 11 bankruptcy. The accounts receivable claim is \$6,901. On March 22, 2011 a Notice of Order Confirming Plan was issued by the United States Bankruptcy Court. The Port will receive full payment in installments over 46 months.

NOTE 10 – DEFERRED CREDITS

In accordance with generally accepted accounting principles for regulated businesses, the Port has no deferred costs and revenues for 2010.

NOTE 11 – ANNUAL OPEB COST AND NET OPEB OBLIGATION

The Port has no annual OPEB costs or net OPEB obligations.

NOTE 12 – POLLUTION REMEDIATION OBLIGATIONS

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

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

NOTE 13 – OTHER DISCLOSURES

A. Major Receivables

In 2010, 14% of the operating revenues or \$459,038 charged for property lease/rental income was billed to a manufacturing company for several land and facility leases.

B. Extraordinary/Special Items

The Port incurred \$327 in net extraordinary expense for 2010, consisting of environmental costs related to the Norseland Site. Compliance monitoring actions, which focused on cap integrity, ambient air monitoring and groundwater testing have been done consistent with the Compliance Monitoring Plan (CMP) for the Site, and a Petition for Removal of the former Norseland Estates Site from the Hazardous Sites list has been submitted to the Washington State Department of Ecology.

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SECTION 3

STATISTICAL

Port of Bremerton

STATISTICAL SECTION NARRATIVE AND SCHEDULES

This section of the Port's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements and note disclosures present about the Port's overall financial health.

CONTENTS

FINANCIAL TRENDS

These schedules contain trend information to help the reader understand how the Port's financial performance and well-being has changed over time. The schedules include fiscal year 2001 and forward, and include:

Schedule 1 – Revenue, Expenses, and Changes in Net Assets, Last Ten Years

Schedule 2 – Net Assets by Component, Last Ten Years

REVENUE CAPACITY

These schedules contain information to help the reader assess the factors affecting the Port's ability to generate its property taxes and how the property tax rates have changed over time. Schedules included are:

Schedule 3 – Property Tax Levies and Collections, Last Ten Years

Schedule 4 – Assessed Value of Property, Last Ten Years

Schedule 5 – Property Tax Rates, Last Ten Years

DEBT CAPACITY

These schedules present information to help the reader assess the affordability of the Port's current levels of outstanding debt and the Port's ability to issue additional debt in the future. Details regarding the Port's outstanding debt can also be found in the notes to the financial statements. Schedules included are:

Schedule 6 – Computation of Legal Debt Margin, Current Year

Schedule 7 – Computation of Direct & Overlapping Bonded Debt, Current Year

DEMOGRAPHIC INFORMATION

These schedules offer demographic and economic indicators to help the reader understand the environment in which the port's financial activities take place. Schedules included are:

Schedule 8 – Demographic/Economic Statistics, Last Ten Years

Schedule 9 – Ratios of Outstanding debt, Last Ten Years

Schedule 10 – Principal Employers of Kitsap County, Current Year and 2001

OPERATING INFORMATION

These schedules contain data about the Port's operations to help the reader understand how the information in the Port's financial report relates to the services it provides and the activities it performs.

Schedule 11 – Number of Port Employees by Division, Current Year

Schedule 12 – Bremerton National Airport Enplaned/Deplaned Freight, Last Ten Years

Schedule 13 – Bremerton National Airport Landings & Takeoffs, Last Ten Years

Schedule 14 – Existing Kitsap County Moorage Facilities, As of April 2011

Schedule 15 – Largest Property Leases, Current Year

Schedule 16 – Capital Assets Information – Current Year

Port of Bremerton

Statistical Section - Schedule 1

**Revenues, Expenses, and Changes in Net Assets
Last Ten Years**

Page 1 of 3

	2001	2002	2003	2004	2005
Operating Revenues					
Airport	\$ 597,262	\$ 394,449	\$ 293,220	\$ 200,178	\$ 202,586
Marinas	1,046,009	1,029,210	1,123,949	1,215,298	1,322,327
Property Lease	831,590	664,061	773,553	918,879	1,032,097
Other	-	-	2,247	2,820	46,188
Total	2,474,861	2,087,720	2,192,969	2,337,175	2,603,198
Operating Expenses					
Direct	2,764,369	3,093,890	3,065,918	3,196,503	3,555,575
Administrative	569,171	221,495	256,194	279,372	332,092
Depreciation	1,278,584	1,408,086	1,381,173	1,460,007	1,497,749
Total	4,612,124	4,723,471	4,703,285	4,935,882	5,385,416
Operating Income (Loss)	(2,137,263)	(2,635,751)	(2,510,316)	(2,598,707)	(2,782,218)
Non-Operating Revenues(1)					
Ad valorem tax revenues	2,394,324	2,592,127	2,652,634	2,730,525	2,838,978
Interest income	378,054	164,833	95,478	99,242	212,255
Gain on disposition of assets		435,189	(8,317)	(41,547)	(79,502)
Other non-operating revenues	320,267	50,569	55,311	595,609	80,448
Total	3,092,645	3,242,718	2,795,106	3,383,829	3,052,179
Non-Operating Expenses					
Interest Expense	191,499	171,352	155,100	141,777	135,415
Other non-operating expenses	292,849	34,253	34,606	334,666	70,264
Total	484,348	205,605	189,706	476,443	205,679
Capital Contributions	99,175	465,931	227,884	939,350	3,649,914
Increase (Decrease) in net assets	570,209	867,293	322,968	1,248,029	3,714,196
Total Net Assets					
Beginning of Year	32,461,145	33,031,354	33,898,647	34,221,615	35,459,644
End of Year	\$ 33,031,354	\$ 33,898,647	\$ 34,221,615	\$ 35,459,644	\$ 39,173,840

(1) Other non-operating revenues include timber thinning revenue and miscellaneous tax receipts.

(2) Other non-operating expenses include election costs and extraordinary items.

Port of Bremerton

Statistical Section - Schedule 1

**Revenues, Expenses, and Changes in Net Assets
Last Ten Years**

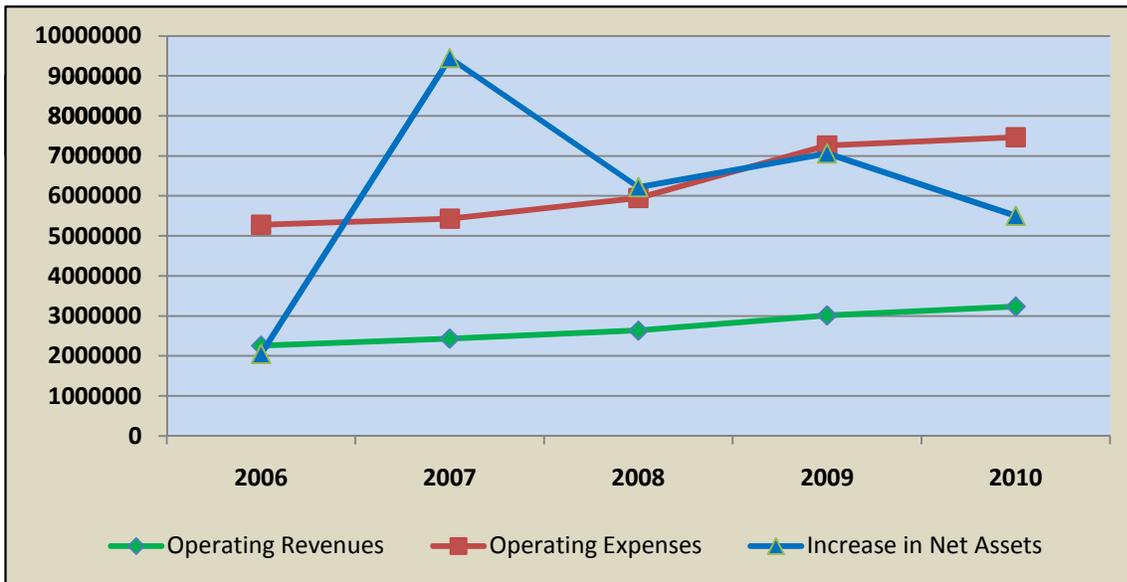
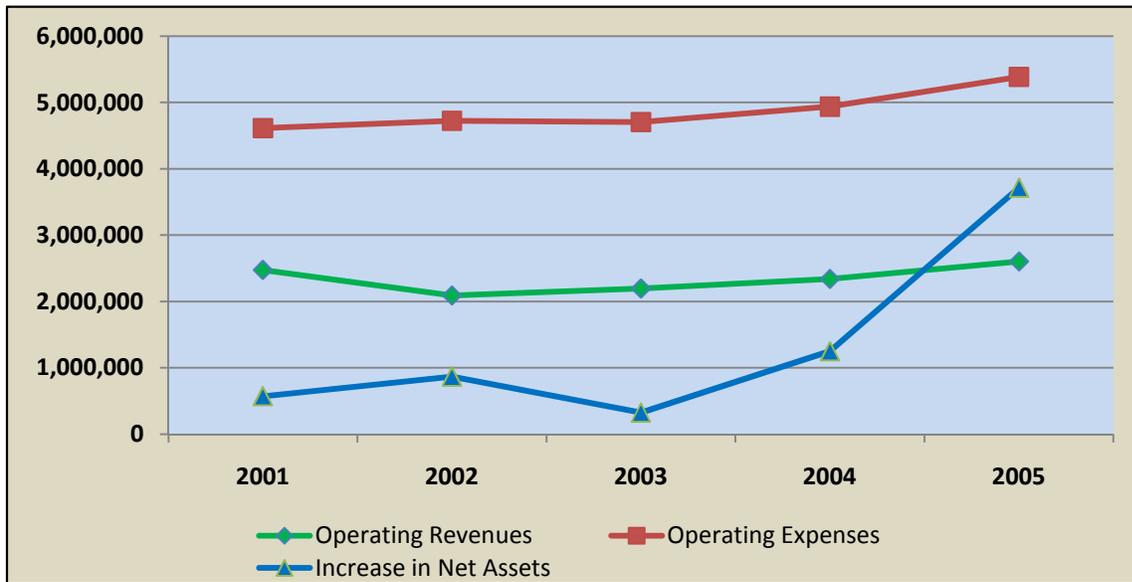
Page 2 of 3

	2006	2007	2008	2009	2010
Operating Revenues					
Airport	\$ 208,103	\$ 209,490	\$ 217,149	\$ 217,646	\$ 217,595
Marinas	978,910	1,074,630	1,248,785	1,552,448	1,647,755
Property Lease	1,071,645	1,149,015	1,168,103	1,241,556	1,370,761
Other	1,140	421	393	1,572	617
Total	2,259,798	2,433,556	2,634,430	3,013,222	3,236,728
Operating Expenses					
Direct	3,546,800	3,652,393	4,269,532	4,136,970	4,193,133
Administrative	329,570	342,338	370,909	585,452	640,938
Depreciation	1,401,468	1,433,253	1,305,868	2,537,146	2,634,037
Total	5,277,838	5,427,984	5,946,309	7,259,568	7,468,108
Operating Income (Loss)	(3,018,040)	(2,994,428)	(3,311,879)	(4,246,346)	(4,231,380)
Non-Operating Revenues(1)					
Ad valorem tax revenues	2,965,555	7,577,576	7,728,339	7,908,740	7,860,705
Interest income	463,342	934,485	221,147	39,935	22,095
Gain on disposition of assets		314,578	(24,940)	(2,266)	(1,672)
Other non-operating revenues	128,541	152,308	985,165	140,252	150,644
Total	3,557,438	8,978,947	8,909,711	8,086,661	8,031,772
Non-Operating Expenses					
Interest Expense	294,801	774,622	740,975	629,167	615,535
Other non-operating expenses	31,821	93,694	24,284	258,050	327
Total	326,622	868,316	765,259	887,217	615,862
Capital Contributions	1,834,438	4,329,936	1,384,655	4,108,148	2,315,270
Increase (Decrease in net assets)	2,047,214	9,446,141	6,217,228	7,061,246	5,499,800
Total Net Assets					
Beginning of Year	39,173,840	41,221,054	50,667,194	56,884,422	63,945,668
End of Year	\$ 41,221,054	\$ 50,667,194	\$ 56,884,422	\$ 63,945,668	\$ 69,445,468

(1) Other non-operating revenues include timber thinning revenue and miscellaneous tax receipts.

(2) Other non-operating expenses include election costs and extraordinary items.

Revenues, Expenses, and Changes in Net Assets
Last Ten Years



Net Assets by Component
Last Ten Years

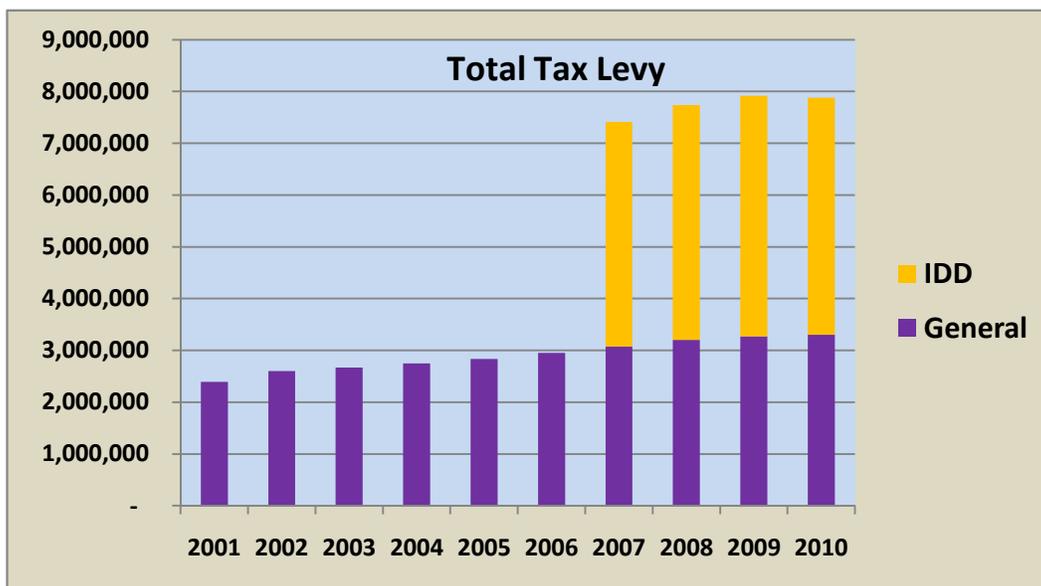
	2001	2002	2003	2004	2005
Invested in capital assets					
- net of related debt	\$ 23,679,274	\$ 25,584,368	\$ 26,806,007	\$ 28,033,562	\$ 32,221,320
Restricted	5,000,040	3,544,966	1,151,412	366,909	394,623
Unrestricted	4,352,040	4,769,313	6,264,196	7,059,173	6,557,897
Total net assets	33,031,354	33,898,647	34,221,615	35,459,644	39,173,840

	2006	2007	2008	2009	2010
Invested in capital assets					
- net of related debt	\$ 34,530,650	\$ 38,733,438	\$ 52,144,361	\$ 57,850,558	\$ 61,357,709
Restricted	423,513	488,639	1,602,775	3,358,227	4,636,284
Unrestricted	6,266,891	11,445,117	3,137,286	2,736,883	3,451,475
Total net assets	41,221,054	50,667,194	56,884,422	63,945,668	69,445,468

Source: Port of Bremerton Records

Property Tax Levies and Collections
Last Ten Years

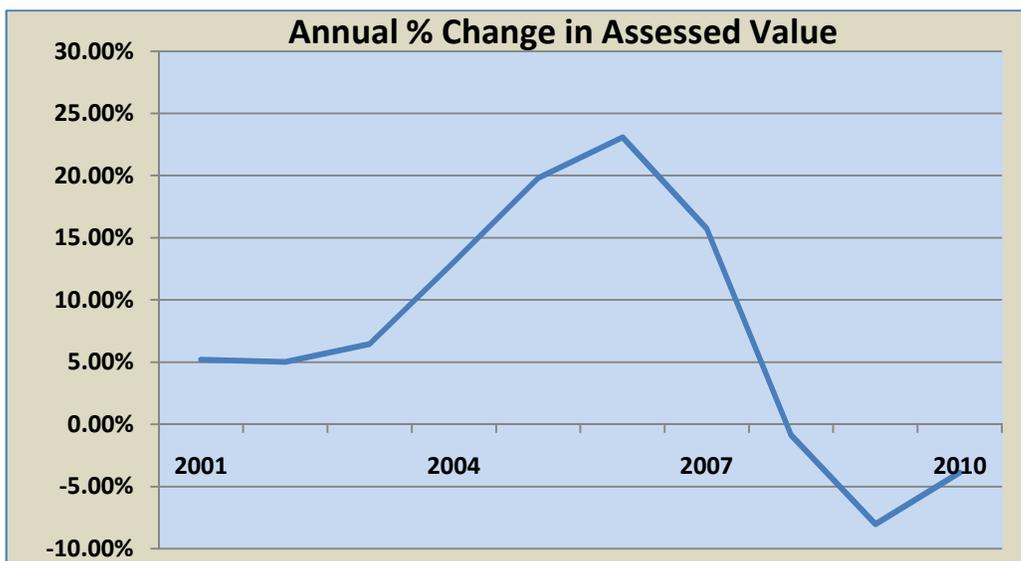
Year	Type	Total Tax Levy	Total Tax Collections	% of Total Tax Collection to Levy	Net Tax Adjustments Inc. (Dec.)	Outstanding Delinquent Taxes	% Delinquent Taxes to Tax Levy
2001	General	2,393,708	2,392,283	99.94%	113	1,538	0.06%
2002	General	2,600,537	2,584,943	99.40%	(12,753)	2,841	0.11%
2003	General	2,666,721	2,644,781	99.18%	(16,958)	4,982	0.19%
2004	General	2,747,000	2,731,955	99.45%	(11,206)	3,839	0.14%
2005	General	2,834,641	2,828,797	99.79%	844	6,688	0.24%
2006	General	2,950,380	2,970,168	100.67%	24,430	4,642	0.16%
2007	General	3,073,157	3,136,418	102.06%	68,335	5,074	0.17%
	IDD	4,338,806	4,428,116		(2,992)	7,169	
2008	General	3,204,366	3,175,461	99.10%	(2,114)	26,792	0.84%
	IDD	4,535,604	4,494,693		(3,416)	37,919	
2009	General	3,271,818	3,214,245	98.24%	(2,408)	55,165	1.69%
	IDD	4,641,236	4,559,566		(8,816)	78,254	
2010	General	3,299,841	3,182,017	96.43%	(6,354)	111,470	3.38%
	IDD	4,578,373	4,414,899		(1,068)	154,658	



Note: Industrial Development District (IDD) Tax Levy to be assessed and collected over a six year period beginning in 2007.

***Assessed Value of Property
Last Ten Years**

Fiscal	Tax	Real Property	Personal Property	Public Utilities	Total	%
2001	2002	5,170,319,618	78,028,824	141,739,913	5,390,088,355	5.19%
2002	2003	5,429,857,520	81,740,162	149,962,036	5,661,559,718	5.04%
2003	2004	5,779,841,363	91,197,774	138,851,156	6,009,890,293	6.15%
2004	2005	6,534,571,899	116,457,240	136,455,678	6,787,484,817	12.94%
2005	2006	7,829,291,586	128,726,727	122,712,275	8,080,730,588	19.05%
2006	2007	9,636,966,004	142,399,865	132,239,232	9,911,605,101	22.66%
2007	2008	11,152,989,919	151,721,437	136,244,156	11,440,955,512	15.43%
2008	2009	11,056,924,272	167,735,860	132,202,720	11,356,862,852	-0.74%
2009	2010	10,170,291,897	159,160,808	126,760,394	10,456,213,099	-7.93%
2010	2011	9,776,001,173	189,793,292	125,523,757	10,091,318,222	-3.49%

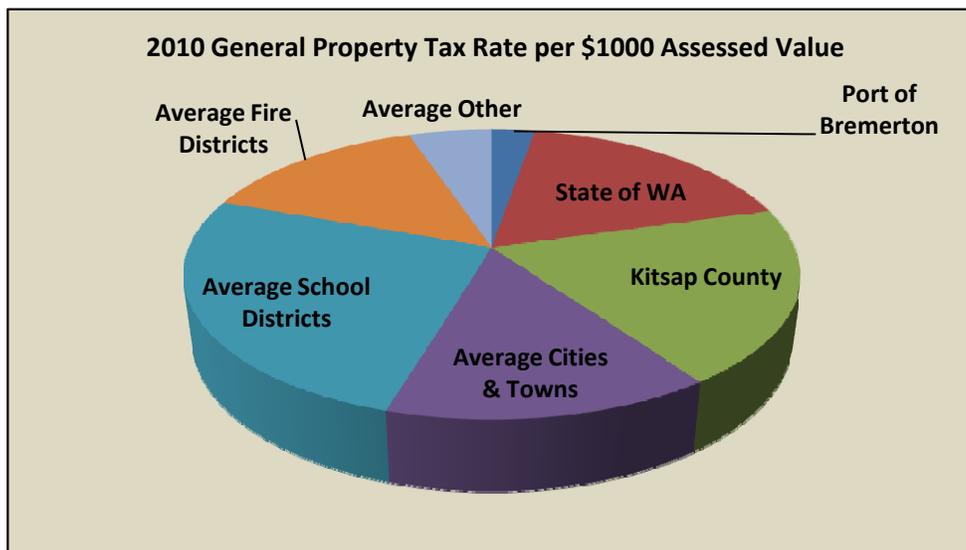


Source: Kitsap County Statement of Assessments

*All property in Kitsap County is physically inspected at least once every six years. Values are updated countywide on an annual basis by statistical analysis.

**Property Tax Rates
Per \$1,000 of Assessed Value
Direct and Overlapping Governments
Last Ten Years**

Year	Type	Port of Bremerton	State of WA	County	Average Cities & Towns	Average School Districts	Average Fire Districts	Average Other	Aggregate Consolidated Total
2001	General	0.487	3.1	3.5	2.53	3.61	1.84	0.97	16.037
2002	General	0.503	3.15	3.65	2.43	4.43	1.78	0.71	16.653
2003	General	0.491	2.93	3.52	2.33	4.08	1.71	0.97	16.031
2004	General	0.475	3.08	3.28	2.33	3.94	1.69	0.66	15.455
2005	General	0.434	2.96	3.03	2.21	3.64	1.58	0.75	14.604
2006	General	0.377	2.6	2.6	1.97	3.14	1.43	0.54	12.657
2007	General IDD	0.319 0.450	2.3	2.21	1.71	2.83	1.41	0.58	11.809
2008	General IDD	0.237 0.407	2.03	2.02	1.52	2.58	1.34	0.54	10.674
2009	General IDD	0.296 0.420	2.03	2.08	1.57	2.72	1.4	0.57	11.085
2010	General IDD	0.324 0.450	2.13	2.32	1.73	3.08	1.7	0.62	12.354



Source: Kitsap County Assessors Office

Computation of Legal Debt Margin
As of December 31, 2010

INDEBTEDNESS FOR GENERAL PURPOSES

2010 Assessed Value of Taxable Property in the Taxing District		\$ 9,805,234,893
Legal Limit at 3/4 of 1% of Property Value		73,539,262
<i>GENERAL PURPOSE INDEBTEDNESS INCURRED</i>		
Current G.O. Bond Liabilities:		
2006 G.O Bond	7,445,000	
2009 G.O. Bond	4,265,000	
Other Loans	932,914	
<i>Total General Purposes Indebtedness</i>	12,642,914	
Restricted Cash and Investments:		
G.O. Bond Cash	1,230,673	
Total	1,230,673	
Excess Liabilities Over Assets		11,412,241
Margin of Indebtedness Available		62,127,021
<hr/> <hr/>		
Margin of Indebtedness Available Without a Vote of the People (1/4 of 1% of Assessed value of Property Less Excess Liabilities Over Assets)		
Total Margin Available		\$ 13,100,846
<hr/> <hr/>		

Port of Bremerton

Statistical Section - Schedule 7

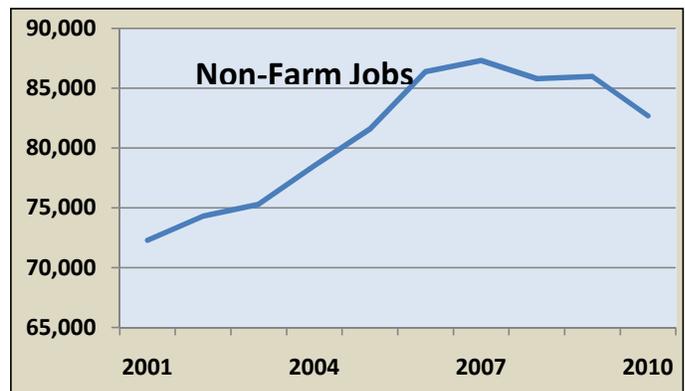
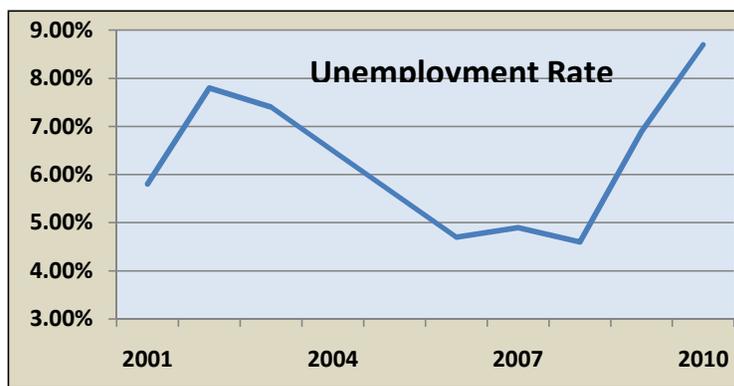
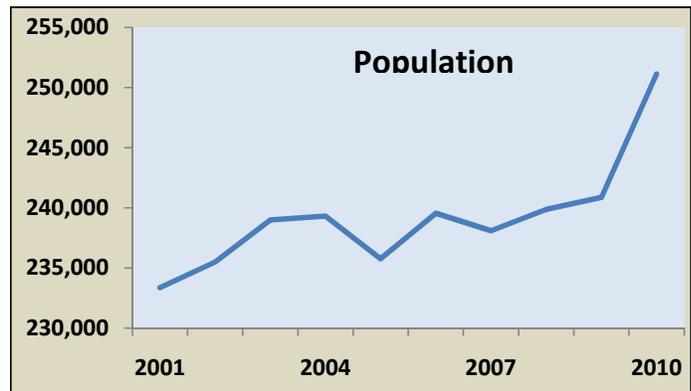
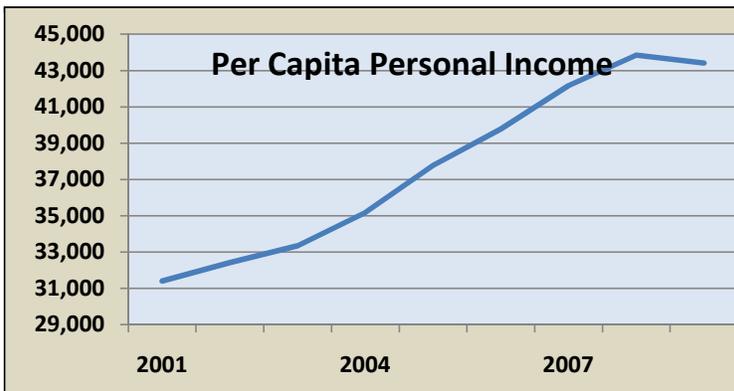
**Computation of Direct & Overlapping Bonded Debt
General Obligation Bonds
As of December 31, 2010**

Jurisdiction	Gross Debt Outstanding	Percentage Applicable to Port of Bremerton	Amount Applicable to Port of Bremerton
School Districts			
Bremerton School District	22,967,273	75.00%	17,225,455
South Kitsap School District	4,057,345	70.00%	2,840,142
Central Kitsap School District	3,030,000	50.00%	1,515,000
Cities and Towns			
Port Orchard	16,320,188	50.00%	8,160,094
Bremerton	35,705,685	90.00%	32,135,117
Port of Bremerton	11,710,000	100.00%	11,710,000
Kitsap County	125,153,299	33.00%	41,300,589
Totals	218,943,790		114,886,395

Note: The Port of Bremerton is not a county wide district.

**Demographic/Economic Statistics
Kitsap County, Washington
Last Ten Years**

Fiscal Year Ended	Population (1)	Personal Income (thousands of \$ (3)	Per Capita Personal Income (3)	Non Farm Employment (2)	Unemployment Rate (2)	School Enrollment (4)
2001	233,348	7,328	31,405	72,300	5.80%	17,050
2002	235,499	7,634	32,420	74,300	7.80%	16,956
2003	238,988	7,969	33,348	75,300	7.40%	16,754
2004	239,311	8,418	35,178	78,500	6.50%	16,548
2005	235,769	8,904	37,769	81,600	5.60%	15,973
2006	239,543	9,528	39,777	86,400	4.70%	15,744
2007	238,087	10,038	42,163	87,306	4.90%	15,631
2008	239,865	10,518	43,851	85,800	4.60%	15,376
2009	240,862	10,454	43,404	86,000	6.90%	14,902
2010	251,133 (5)	N/A	N/A	82,700	8.70%	14,733



Sources: (1) Washington State Office of Financial Management
 (2) Washington State Employment Security Dept. Wages H1-2010
 (3) U.S. Bureau of Economic Analysis, Department of Commerce
 (4) U.S. OSPI - Superintendent of Public Instruction
 (5) United States Census, 2010

Ratios of Outstanding Debt
Last Ten Years

Year	General Obligation Bonds (net)	Notes Payable & Other	Total Government Debt	Percentage of personal income	Per Capita Taxes
2001	3,406,643	-	3,406,643	0.05%	14.60
2002	3,000,000	-	3,000,000	0.04%	12.74
2003	2,580,000	432,000	3,012,000	0.04%	12.60
2004	2,140,000	432,000	2,572,000	0.04%	10.75
2005	1,680,000	676,905	2,356,905	0.03%	10.00
2006	18,921,788	656,631	19,578,419	0.27%	81.73
2007	18,385,938	635,675	19,021,613	0.26%	79.89
2008	14,580,088	614,029	15,194,117	0.21%	63.34
2009	15,331,505	891,257	16,222,762	0.22%	67.35
2010	11,641,678	932,914	12,574,592	0.17%	50.07

Source: Port of Bremerton Records

Notes: (1) Net bonds are bond totals less unamortized premiums and discounts

See Schedule 8 for per capita personal income and population data.

N/A: Not available at time of printing.

Principal Employers of Kitsap County
Current Year and 2001

Employer	2010			2001		
	Employees	Rank	Percentage of total county employment	Employees	Rank	Percentage of total county employment
Naval Base Kitsap	26,400	1	10.66%	12,571	1	5.46%
Harrison Hospital	2,697	2	1.09%	1,162	5	0.50%
Kitsap County	1,204	3	0.49%	1,050	7	0.46%
Central Kitsap School District	1,201	4	0.49%	1,859	3	0.81%
Wal-Mart	1,003	5	0.41%	-		0.00%
South Kitsap School District	1,002	6	0.40%	1,100	6	0.48%
North Kitsap School District	795	7	0.32%	873	8	0.38%
Port Madison Enterprises	782	8	0.32%	-		0.00%
Bremerton School District	690	9	0.28%	750	10	0.33%
Safeway	623	10	0.25%	-		0.00%
Total	<u>36,397</u>		<u>14.70%</u>	<u>19,365</u>		<u>8.41%</u>

Source: Kitsap Regional Economic Development Alliance, The U.S. Census Bureau & The Office
 of Economic Development - Taken from the Kitsap County 2010 Statement of Assessments

Port of Bremerton

Statistical Section - Schedule 11

**Number of Employees by Division
Current Year**

Division	Number of Employees	Percentage of Employees
Airport / Business and Industrial Park	6	18.75%
Marinas	9	28.13%
Administration		
Marinas	4	12.50%
Finance	4	12.50%
General	4	12.50%
Executive	5	15.63%
Totals	32	

Port of Bremerton**Statistical Section - Schedule 12****Bremerton National Airport
Enplaned/Deplaned Freight**

Year	# Landings	Freight (pounds)		Total
		Enplaned	Deplaned	
2001		No Records Available		
2002		No Records Available		
2003	63	242,550	0	242,550
2004	256	985,600	0	985,600
2005	247	950,950	0	950,950
2006	247	950,950	0	950,950
2007	230	1,751,450	0	1,751,450
2008	262	550,978	16,339	567,317
2009	254	138,179	41,784	179,963
2010	257	399,650	31,877	431,527
Totals		5,970,307	90,000	6,060,307

Source: Port of Bremerton Records

**Bremerton National Airport
Landings and Takeoffs**

Year	Air	Air	Itinerant		Local		Total
	Carrier	Taxi	General	Military	General	Military	
2001	0	100	42,000	900	65,000	108,000	216,000
2002	0	400	19,800	900	29,700	0	50,800
2003	0	400	19,800	900	29,700	0	50,800
2004	0	416	20,691	900	31,037	0	53,044
2005	0	432	21,582	900	32,374	0	55,288
2006	0	445	22,273	900	33,412	0	57,030
2007	0	459	22,987	900	34,483	0	58,829
2008	0	73	23,724	900	35,588	0	60,285
2009	0	487	24,485	900	36,729	0	62,601
2010	0	502	25,270	900	37,905	0	64,577

Source: FAA Terminal Area Forecast: National Forecast 2007 - Airport Operations
 Bremerton National Airport - Airport Master Plan, May 2004
 Model for estimating General Aviation Operations at non-towered airports, prepared for the FAA Statistical & Forecast
 Branch, July 2001

**Existing Kitsap County Moorage Facilities
As of April 30, 2011**

Moorage Facility	No. on Waiting List Open	No. on Waiting List Cov	Moorage Berths Open	Moorage Berths Cov	Moorage Occupancy % Open	Moorage Occupancy % Cov	Number Visitor Berths
Port Orchard Marina	5	20	184	157	95%	96%	90
Bremerton Marina	0	NA	221	0	39%	NA	100
Yachtfish	0	1	9	2	100%	100%	0
Kitsap Marina	0	NA	22	0	68%	NA	0
Port Orchard Marine Railway	0	0	75	2	90%	100%	0
Sinclair Inlet	0	0	30	43	93%	100%	0
Suldan's	0	N	72	0	53%	NA	0
Brownsville	133	NA	379	0	100%	NA	60
Kingston	357	165	206	54	100%	100%	49
Poulsbo	23	NA	269	0	96%	NA	135

Source: Survey of Marinas conducted by Port of Bremerton

**Current Moorage Rates and Tariffs
As of April 30, 2011 (\$/mo.)**

Moorage Facility	28 Open	28 Cov	38 Open	38 Cov	50 Open	50 Cov
Port Orchard Marina	\$177.09	\$190.36	\$293.50	\$400.49	\$387.34	\$591.65
Bremerton Marina	n/a	n/a	328.43	n/a	433.10	n/a
Yachtfish	198.80	266.00	269.80	361.00	355.00	475.00
Kitsap Marina	n/a	n/a	220.00	n/a	275.00	n/a
Port Orchard Marine Railway	182.00	238.00	247.00	343.00	325.00	425.00
Sinclair Inlet	196.00	252.00	266.00	342.00	350.00	450.00
Suldan's	182.00	n/a	247.00	n/a	325.00	n/a
Brownsville	109.19	n/a	148.18	n/a	194.99	n/a
Kingston	159.87	n/a	216.97	325.02	285.49	427.66
Poulsbo	132.16	n/a	179.36	n/a	236.00	n/a

Source: Survey of Marinas conducted by Port of Bremerton

**Historical Moorage Rates and Tariffs
at Port of Bremerton Marinas**

PORT ORCHARD MARINA (1)

Year	Effective LHT Rate	28 Open	28 Covered	(40')38 Open	(42') 38 Cov	50 Open	(52') 50 Cov
2002	12.8400%	\$118.48	\$150.08	\$169.26	\$248.81	\$211.58	\$308.05
2003	1.3000%	109.49	138.70	156.41	230.17	195.51	284.98
2004	4.5443%	119.14	151.05	170.20	250.72	212.75	310.41
2005	4.8535%	125.95	159.71	179.93	265.11	224.91	328.23
2006	3.2788%	169.75	182.47	281.33	383.89	371.29	567.12
2007	4.5345%	171.81	184.69	284.75	388.55	375.80	574.02
2008	5.2892%	173.05	186.02	286.81	391.36	378.51	578.16
2009	5.4551%	173.33	186.32	287.26	391.98	379.11	579.08
2010	7.1025%	176.03	189.23	291.75	398.10	385.03	588.12
2011	7.7450%	177.09	190.36	293.50	400.49	387.34	591.65

BREMERTON MARINA (1)

Year	Effective LHT Rate	28 Open	28 Covered	38 Open	38 Cov	50 Open	50 Cov
2008	0.8308%	n/a	n/a	\$312.71	n/a	\$412.37	n/a
2009	5.4093%	n/a	n/a	326.91	n/a	431.09	n/a
2010	5.5575%	n/a	n/a	327.37	n/a	431.70	n/a
2011	5.9003%	n/a	n/a	328.43	n/a	433.10	n/a

Guest Moorage Only Prior to 2008

Source: (1) Port of Bremerton Records

Largest Property Leases

Tenant Name	Type of Activity	2010 Lease Payment	Lease Expires	Renewal Option Year
1 SAFE Boats	Boat Manufacturer	\$ 459,038	2012	None
2 Electric Boat	Submarine Manufacturer/ Refurbisher	91,776	2012	2017
3 Avian Flight Center, Inc.	Fix Based Operator	80,815	2022	2042
4 Kitsap County Storm Division	Utility	69,322	2053	2073
5 Fred Hill Materials	Cement Batch Plant	63,863	2013	2033
6 Westech	Aerosol Adhesive Manufacturer	62,968	2015	2020
7 Viking Fence	Fence Installer	36,860	2012	None
8 Coastal Marine	Marine Vessel Refurbisher	33,137	2013	2015
9 Electro Forming	Chrome Plating	31,053	2015	2020
10 Brem-Air, Inc.	Waste Removal	30,864	2029	None
Largest 10 Property leases		\$ 959,695		
Total Real Estate Revenues		\$ 1,370,761		
Largest 10 Leases as a Percentage of Total Real Estate Revenues		70.01%		

Source: Port of Bremerton Financial Division

**Capital Assets Information
As of December 31, 2010**

Bremerton National Airport

Location:	8 miles south of Bremerton
Airport Identifier:	PWT
Runways:	1/19 at 6,000' 150'
Use:	General Aviation/Corporate
Instrumentation:	ILS & NexGen ADSB Site/GPS
Area:	1,200 acres
Foreign trade Zone:	217 Acres
Tenants/Employees:	11/121

Olympic View Business & Industrial Parks

Location:	8 miles south of Bremerton
Area:	587 acres
Leasable Area	
Building Area:	527,000 sq. ft.
Land	348 acres
Tenants/Employees:	29/848
Foreign trade Zone:	312 acres
Intermodal Rail Facility:	1

Marinas

Bremerton Marina	
Permanent Slips:	220
Visiting Slips:	90
Port Orchard Marina	
Permanent Slips:	342
Visiting Slips:	100
Fueling Station:	1
Boat Launches:	3
Recreation Piers:	2
Parks	3

See Schedule 14