Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

City of Bremerton

Kitsap County

Audit Period

January 1, 2010 through December 31, 2010

Report No. 1006433

Issue Date

September 26, 2011

WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Washington State Auditor
Brian Sonntag

September 26, 2011

Mayor and City Council
City of Bremerton
Bremerton, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Federal Summary

City of Bremerton
Kitsap County
January 1, 2010 through December 31, 2010

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

FINANCIAL STATEMENTS

An unqualified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

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

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

- ***Material Weaknesses:*** We identified deficiencies that we consider to be material weaknesses.

We issued an unqualified opinion on the City's compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
14.218	Community Development Block Grant - Entitlement Grants
14.218	ARRA - Community Development Block Grant - Entitlement Grants (Recovery Act)
20.205	Highway Planning and Construction
20.205	ARRA - Highway Planning and Construction (Recovery Act)
66.458	ARRA - Capitalization Grants for Clean Water State Revolving Funds (Recovery Act)
66.468	ARRA - Capitalization Grants for Drinking Water State Revolving Funds (Recovery Act)

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $445,580.

The City did not qualify as a low-risk auditee under OMB Circular A-133.

Schedule of Federal Audit Findings and Questioned Costs

City of Bremerton
Kitsap County
January 1, 2010 through December 31, 2010

1. The City did not establish adequate internal controls over program income requirements for its Community Development Block Grant.

CFDA Number and Title:	14.218-Community Development Block Grant
Federal Grantor Name:	U.S. Department of Housing and Urban Development
Federal Award/Contract Number:	B-09-MC-53-0011, B-10-MC-53-0011
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$0

Description of Condition

During 2010 the City spent $508,155 in federal funds to operate its Community Development Block Grant (CDBG) program which funds local community development activities such as affordable housing, anti-poverty programs, and infrastructure development.

In administering this grant, the City earned repayment of loan principal and interest which is referred to as "program income." The money was in a City bank account. Federal regulations state that substantially all of the program income generated should be used to pay for grant-related activities before additional cash withdrawals are made from the grantor.

The City's program income account balance ranged from $44,057 to $94,402 throughout 2010. The City made 11 reimbursement requests during 2010 but did not spend the program income before requesting additional federal funds.

Cause of Condition

The grant administrator did not understand that program income must be spent before requesting additional federal reimbursement.

Effect of Condition and Questioned Costs

The City was over-reimbursed on all 11 requests during 2010. The excess reimbursement ranged from $5,164 to $75,897. At year end, the net amount over-reimbursed was $44,057 since this was the ending balance in the program income account.

The grantor could seek repayment for any interest that was earned while the program income was being held in the City's bank account. Further, the U.S. Treasury has lost potential interest from its own accounts when it disburses grant funding beyond the immediate needs of the grantee.

Recommendation

We recommend the City:

- Provide the grant administrator training on federal program income requirements.
- Establish any additional controls necessary to ensure program income is used before submitting costs for reimbursement.

City's Response

The City acknowledges the lack of internal controls over the use of CDBG program income. CDBG staff will take immediate action to reduce the existing CDBG bank account balance by using CDBG program income to reimburse sub-grantee agencies for vouchers submitted. Vouchers for open CDBG capital projects will be paid with program income until the balance is adequately reduced. We estimate that the balance will be paid down by year end 2011.

The City's CDBG Administrator is working with Kitsap County Block Grant to develop best practices related to Program Income expenditure. The Block Grant Department will continue to seek local HUD training opportunities on CDBG Administration and best practices for handling Program Income.

The Block Grant Administrator is working with the City's finance department to develop new Program Income receipt / expenditure tracking tools to support our new procedures.

Auditor's Remarks

We appreciate the steps the City has made to address this issue. We will review the status of this issue during our next audit.

Applicable laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* , Section 300, states in part:

> The auditee shall:
>
>> (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Title 24, Code of Federal Regulations, Section 570.500 Definitions - Subpart J_Grant Administration, states in part:

> (2) Program income does not include income earned (except for interest described in Sec. 570.513) on grant advances from the U.S. Treasury. The following items of income earned on grant advances must be remitted to HUD for transmittal to the U.S. Treasury, and, will not be reallocated under section 106(c) or (d) of the Act: (i) Interest earned from the investment of the initial proceeds of a grant advance by the U.S. Treasury; (ii) Interest earned on loans or other forms of assistance provided with CDBG funds that are used for activities determined by HUD either to be ineligible or to fail to meet a national objective in accordance with the requirements of subpart C of this part, or that fail substantially to meet any other requirement of this part; and (iii) Interest earned on the investment of amounts reimbursed to the CDBG program account prior to the use of the reimbursed funds for eligible purposes.

Title 24, Code of Federal Regulations, Section 570.504 - Program income, states:

> (a) Recording program income. The receipt and expenditure of program income as defined in Sec. 570.500(a) shall be recorded as part of the financial transactions of the grant program. (b) Disposition of program income received by recipients. (1) Program income received before grant closeout may be retained by the recipient if the income is treated as additional CDBG funds subject to all applicable requirements governing the use of CDBG funds. (2) If the recipient chooses to retain program income, that program income shall be disposed of as follows: (i) Program income in the form of repayments to, or interest earned on, a revolving fund as defined in Sec. 570.500(b) shall be substantially disbursed from the fund before additional cash withdrawals are made from the U.S. Treasury for the same activity. (This rule does not prevent a lump sum disbursement to finance the rehabilitation of privately owned properties as provided for in Sec. 570.513.) (ii) Substantially all other program income shall be disbursed for eligible activities before additional cash withdrawals are made from the U.S. Treasury.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

City of Bremerton
Kitsap County
January 1, 2010 through December 31, 2010

Mayor and City Council
City of Bremerton
Bremerton, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bremerton, Kitsap County, Washington, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 2, 2011.

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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

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

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

This report is intended for the information and use of the audit committee, management, the Mayor and City Council, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 2, 2011

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

City of Bremerton
Kitsap County
January 1, 2010 through December 31, 2010

Mayor and City Council
City of Bremerton
Bremerton, Washington

COMPLIANCE

We have audited the compliance of the City of Bremerton, Kitsap County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1 to be a material weakness.

The City's response to the finding identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended for the information of the audit committee, management, the Mayor and City Council, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 2, 2011

Independent Auditor's Report on Financial Statements

City of Bremerton
Kitsap County
January 1, 2010 through December 31, 2010

Mayor and City Council
City of Bremerton
Bremerton, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bremerton, Kitsap County, Washington, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed on page 12. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bremerton, as of December 31, 2010, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, 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 have also issued our report on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 24 and information on postemployment benefits other than pensions on page 66 are not a required part of the basic financial statements but are 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.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 2, 2011

Financial Section

City of Bremerton
Kitsap County
January 1, 2010 through December 31, 2010

REQUIRED SUPPLEMENTAL INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTAL INFORMATION

SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis

The City of Bremerton (City) presents this Management Discussion and Analysis (MD&A) in order to provide a narrative overview of the City's financial activities, focus on significant financial issues, and highlight significant changes in the City's financial position for the fiscal year ended December 31, 2010. This information should be read in conjunction with the financial statements and notes to the financial statements that follow.

Financial Highlights

- At the end of fiscal year 2010, the assets of the City exceeded its liabilities by $238.1 million. Net assets invested in capital assets (net of depreciation and related debt) account for over 81.9 percent of this amount ($195.1 million). Net assets restricted primarily for construction projects, debt service, Community Development Block Grant (CDBG) programs and public safety account for another 2.1 percent of this amount ($5.1 million). The remaining net assets of $33.4 million may be used to meet the City's ongoing obligations to citizens and creditors.

- The City's net assets increased by $11.7 million (5.2%) during the fiscal year. The governmental net assets increased by $2.4 million (3%) from the amount reported in 2009. Business-type net assets increased by $9.3 million (6.4%). The Business-type increase included net income before contributions and transfers for the Water utility of $643,263, Wastewater utility of $4,052,102, Stormwater utility of $557,364 and Golf Course $(57,025).

- As of December 31, 2010, the City's governmental funds reported a combined fund balance of $15.0 million, an increase of 42.4% from the prior year end. The fund balance of the General Fund increased by $989,374. The remaining non-major governmental funds had a fund balance increase of $3,486,306. The overall increase is largely attributable to the issuance of $9,130,000 of General Obligations bonds for capital projects of which $4.4 million was still unspent at year end. Approximately $14.6 million (97.3%) of the combined ending governmental fund balances is unreserved fund balance available to the City for future appropriation.

- At the end of 2010, the unreserved fund balance of the General Fund was $3 million or approximately nine percent of total General Fund expenditures of $33.7 million. The General Fund's unreserved fund balance increased by $989,374 from the prior year's amount of $2.1 million, a 48 percent increase. This increase is primarily due to a reduction of transfers to the Street and Conference Center funds in 2010.

- The City's total outstanding debt increased by $11.9 million (18.3%) during the current fiscal year to $77.1 million. General obligation debt increased by $8.8 million and revenue debt increased by $3.1 million. Debt per capita increased from $1,781 to $2,131, a 19.7% increase.

- Governmental revenues from local tax sources including sales, business & occupation, utility, and other miscellaneous taxes, decreased by approximately $301,000 to $23.9 million in 2010, a 1.2 decrease from 2009. The tax revenue decrease is primarily attributed to a decrease in the overall economic activity in the City.

Overview of the Financial Statements

The City's basic financial statements are presented in three parts: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Other supplementary information in addition to the basic financial statements is also contained in this report. This section of the management's discussion and analysis is intended to introduce and explain the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to give the reader a picture of the financial condition and activities of the City as a whole. This broad overview is similar to the financial reporting of private-sector businesses. The government-wide financial statements have separate columns for governmental activities and business-type activities. Governmental activities of the City include general government (finance, executive, human resources), community development, public safety (police and fire), physical environment, transportation, mental/physical health, and culture and recreation. The City's business-type activities are limited to the City's municipal golf course and water, wastewater and stormwater utilities. Governmental activities are primarily supported by taxes, charges for services, and grants while business-type activities are self-supporting through user fees and charges.

The ***statement of net assets*** presents information on all of the City's assets and liabilities, highlighting the difference between the two as net assets. This statement is similar to the balance sheet of a private sector business. Over time, increases or decreases in net assets may be one indicator of improvement or deterioration in the City's overall financial health.

The ***statement of activities*** presents information designed to show how the City's net assets changed during the year. This statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. The revenue generated by the specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show how much each function either supports itself or relies on taxes and other general funding sources for support. All activity on this statement is reported on the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed. Items such as uncollected taxes, unpaid vendor invoices for goods or services received during the year, and earned but unused vacation leave are included in the statement of activities as revenue and expenses even though no cash has changed hands.

Fund Financial Statements

The annual financial report includes fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the City's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund type such as the general fund, special revenue funds, and proprietary funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. Funds are often set up in accordance with special regulations, restrictions or limitations. The City, like other state and local governments, uses fund accounting to ensure and show compliance with finance-related legal requirements. The City's funds are divided into three categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

Governmental funds are used to account for essentially the same functions as are reported as governmental activities in the government-wide financial statements. The basis of accounting is different between the governmental fund statements and the government-wide financial statements. The governmental fund statements focus on near-term revenues/financial resources and expenditures while the government-wide financial statements include both near-term and long-term revenues/financial resources and expenses. The information in the governmental fund statements can be used to evaluate the City's near-term financing requirements and immediate fiscal health. Comparing the governmental fund statements with the government-wide statements can help the reader better understand the long-term impact of the City's current year financing decisions. To assist in this comparison, reconciliations between the governmental fund statements and the government-wide financial statements are included with the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances.

The City maintained twenty (23) individual governmental funds in 2010. The City's General fund is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are combined into a single column labeled

"Other Governmental Funds". Information for each of the non-major governmental funds is provided in the combining statements in this report.

The City maintains budgetary control over its operating funds through the adoption of an annual budget. Budgets are adopted at the department and category group level by fund in accordance with City code and state law. A budgetary comparison statement is presented as required supplementary information for all funds for which there was an adopted budget.

Proprietary funds are used by governments to account for their business-type activities. Business-type activities provide specific goods or services to a group of customers that are paid for by fees charged to those customers. There is a direct relationship between the fees paid and the services received.

The City has two types of proprietary funds: *enterprise funds* and *internal service funds*. Enterprise funds are used to account for goods and services provided to citizens. Internal service funds are used to account for goods and services provided internally to various City departments.

The City's four (4) enterprise funds are used to report the same functions presented as business-type activities in the government-wide statements with the fund statements providing more detail than is reported in the government-wide statements. The enterprise fund statements provide separate information for the City's municipal golf course, water and wastewater and stormwater utilities.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for maintenance and acquisition of its fleet of vehicles, insurance premiums and claims as well as information technology services. Internal service funds benefit both governmental and business-type activities and are allocated accordingly in the government-wide statement of activities.

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds are not included in the government-wide financial statements because their assets are not available to support the City's activities.

The City has one type of fiduciary fund – an agency fund. *Agency funds* are custodial in nature and do not include revenues and expenses as they do not measure the results of operations.

Government-wide Financial Analysis

Statement of net assets

The statement of net assets can serve as a useful indicator of the City's financial position. The City's net assets at December 31, 2010 total $238.1 million. Following is a condensed version of the government-wide statement of net assets. The City presents its financial statements under the new reporting model required by Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Two years of financial information in the GASB 34 format are presented.

Net Assets

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2010	2009	Difference	2010	2009	Difference	2010	2009	Difference
Current Assets	$ 15,119	$ 14,231	$ 888	$ 24,490	$ 19,124	$ 5,366	$ 39,609	$ 33,355	$ 6,254
Restricted Assets	8,725	3,111	5614	1,658	1,620	38	10,383	4,731	5,652
Capital Assets	101,558	98,648	2910	169,471	163,959	5,512	271,029	262,607	8,422
Other Noncurrent Assets	666	521	145	1,288	1,364	(76)	1,954	1,885	69
Total assets	126,068	116,511	9,557	196,907	186,067	10,840	322,975	302,578	20,397
Current Liabilities	6,126	4,860	1,266	5,276	5,800	(524)	11,402	10,660	742
Payable from Restricted Assets	449			30	25	5	479	25	454
Noncurrent Liabilities	34,877	27,293	7,584	38,163	35,351	2,812	73,040	62,644	10,396
Total liabilities	41,452	32,153	8,850	43,469	41,176	2,293	84,921	73,329	11,592
Net assets									
Invested in capital assets, net of related debt	66,905	72,088	(5,183)	128,159	122,330	5,829	195,064	194,418	646
Restricted	8,277	3,111	5,166	1,306	1,175	131	9,583	4,286	5,297
Unrestricted	9,434	9,159	275	23,973	21,386	2,587	33,407	30,545	2,862
Total net assets	$ 84,616	$ 84,358	$ 258	$ 153,438	$ 144,891	$ 8,547	$ 238,054	$ 229,249	$ 8,805

The largest component of the City's net assets, $195.0 million (or 81.9%), is its investment in capital assets less any related outstanding debt issued to acquire those assets. These capital assets, such as utility plant, streets, trails, parks, fire and police vehicles, are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

Restricted net assets consist of amounts legally or otherwise externally restricted for debt service and other programs. Of the $8.3 million of governmental restricted assets, $4.8 million or 57.4% is restricted for the construction of capital assets. $2.8 million of restricted net assets are special revenues restricted primarily for use in the Community Development Block Grant program (46.5%), for law enforcement services (35.0%) and Parking system operation and debt service (24.6%). $1.31 million of business-type restricted assets are required reserves for debt service payments. A total of $24.0 million represents the unrestricted net assets of the City's business-type activities and may only be spent on golf course operations, water, wastewater and stormwater utility activities. Maintenance of utility delivery systems (water lines, pump station, wells), storm drain flushing, water meter reading, and capital construction projects, such as well rehabilitation, are examples of utility activities. Other functions of the City may access the remaining net assets of $9.4 million to meet ongoing obligations to citizens and creditors. Examples of other City obligations which these net assets may be used for are: public safety employee salaries, parks maintenance (mowing, fence repair, etc), and ongoing street maintenance (street sweeping, restriping, resurfacing, etc).

At the end of the fiscal year, the City reported positive balances in all three categories of net assets for the government as a whole, as well as for the separate governmental and business-type activities.

Changes in net assets

The changes in net assets table illustrates the increases or decreases in net assets of the City resulting from its operating activities. The City's overall financial position improved in 2010 with net assets increasing approximately $11.7 million. Net assets of governmental activities increased by $2.4 million and the net assets of business-type activities increased by $9.3 million.

Following is a condensed version of the City's changes in net assets. The table shows the revenues, expenses, and related changes in net assets in tabular form for the governmental activities separate from the business-type activities. The graphs that follow compare program revenues to program expenses and illustrate the revenues by source separately for the governmental and business-type activities.

Changes in Net Assets

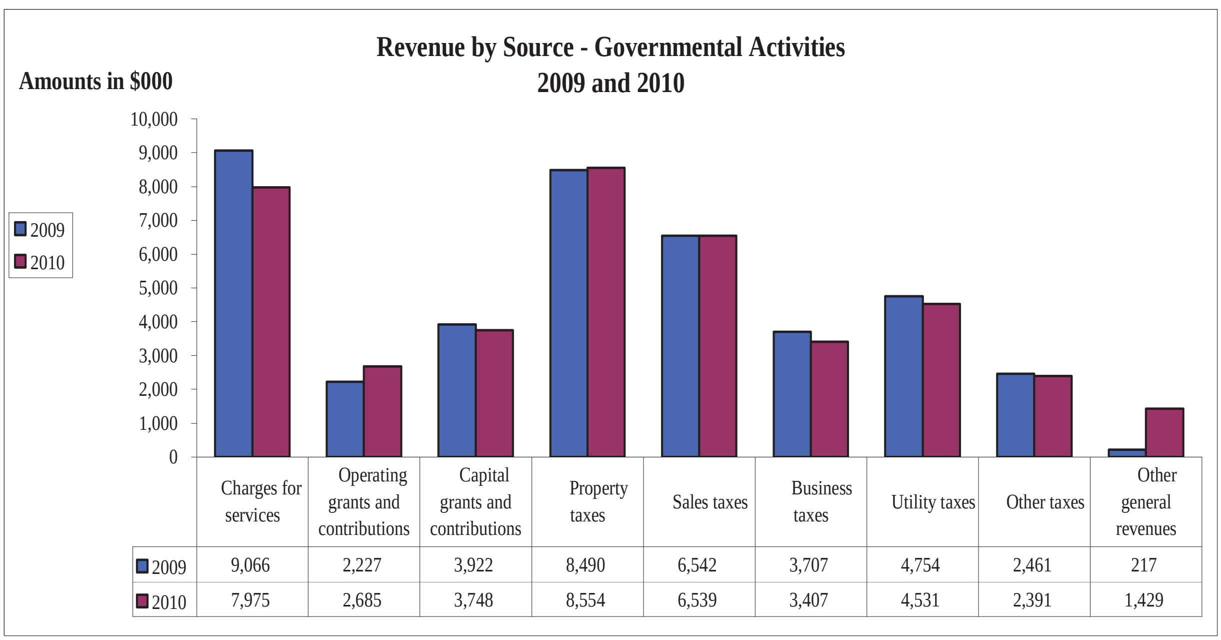
Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2010	2009	Difference	2010	2009	Difference	2010	2009	Difference
Revenues									
Program revenues									
Charges for services	$ 7,975	$ 9,066	$ (1,091)	$ 25,982	$ 27,620	$ (1,638)	$ 33,957	$ 36,686	$ (2,729)
Operating grants and contributions	2,685	2,227	458	66	34	32	2,751	2,261	490
Capital grants and contributions	3,748	3,922	(174)	7,417	3,882	3,535	11,165	7,804	3,361
General revenues									
Property taxes	8,554	8,490	64	-	-	-	8,554	8,490	64
Sales taxes	6,539	6,542	(3)	-	15	(15)	6,539	6,557	(18)
Business taxes	3,407	3,707	(300)	6	-	6	3,413	3,707	(294)
Utility taxes	4,531	4,754	(223)	-	-	-	4,531	4,754	(223)
Other taxes	2,391	2,461	(70)	-	-	-	2,391	2,461	(70)
Other general revenues	1,429	217	1,212	584	557	27	2,013	774	1,239
Total revenues	$ 41,259	$ 41,386	$ (127)	$ 34,055	$ 32,108	$ 1,947	$ 75,314	$ 73,494	$ 1,820
Expenses									
Governmental activities									
General government	3,251	4,001	(750)	-	-	-	3,251	4,001	(750)
Public safety	24,188	23,923	265	-	-	-	24,188	23,923	265
Physical environment	219	227	(8)	-	-	-	219	227	(8)
Transportation	4,012	4,215	(203)	-	-	-	4,012	4,215	(203)
Community development	3,310	2,032	1,278	-	-	-	3,310	2,032	1,278
Culture and recreation	6,510	5,945	565	-	-	-	6,510	5,945	565
Interest on long-term debt	977	962	15	-	-	-	977	962	15
Business-type activities									
Water				8,299	9,243	(944)	8,299	9,243	(944)
Wastewater				9,010	8,927	83	9,010	8,927	83
Golf course				2,256	3,198	(942)	2,256	3,198	(942)
Other proprietary funds				1,603	1,478	125	1,603	1,478	125
Total expenses	$ 42,467	$ 41,305	$ 1,162	$ 21,168	$ 22,846	$ (1,678)	$ 63,635	$ 64,151	$ (516)
Excess of revenues over expenses	(1,208)	81	(1,289)	12,887	9,262	3,625	11,679	9,343	2,336
Transfers	3,611	4,176	(565)	(3,611)	(4,176)	565	-	-	-
Change in net assets	2,403	4,257	(1,854)	9,276	5,086	4,190	11,679	9,343	2,336
Net assets - beginning	84,358	85,912	(1,554)	144,891	128,901	15,990	229,249	214,813	14,436
Prior period adjustment/special items	(2,145)	(5,811)	3,666	(729)	10,904	(11,633)	(2,874)	5,093	(7,967)
Net assets - ending	$ 84,616	$ 84,358	$ 258	$ 153,438	$ 144,891	$ 8,547	$ 238,054	$ 229,249	$ 8,805

Governmental activities accounted for an increase of $2.4 million of the total change in net assets of $11.7 million. Significant elements of the increase are as follows:

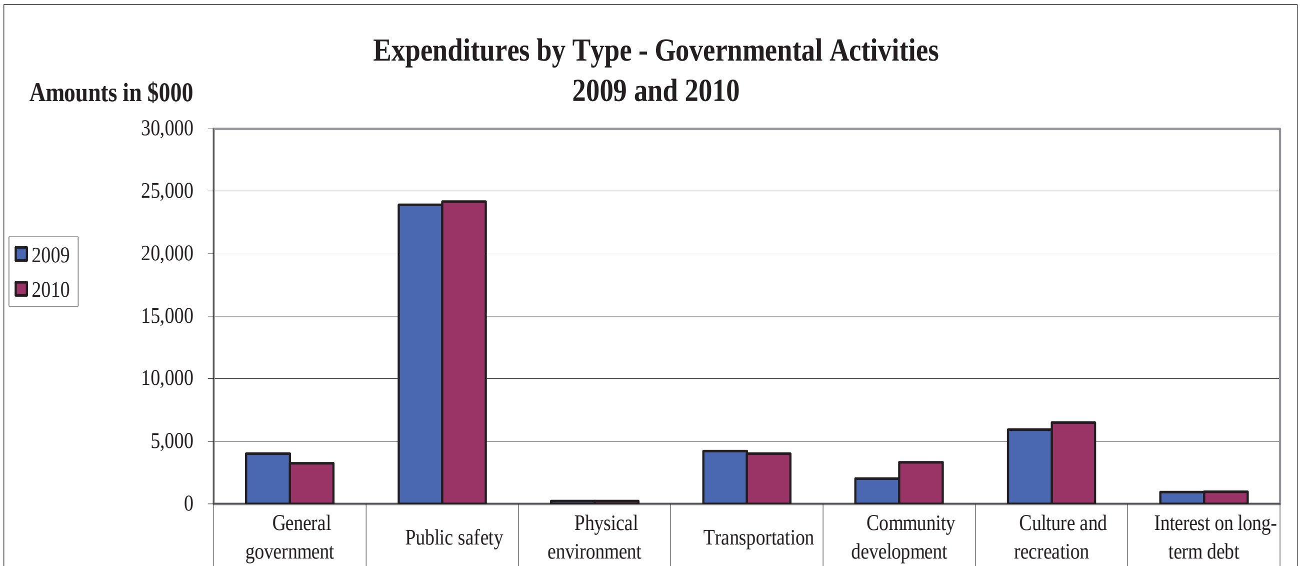
- Expenditures increased by $1.1 million in 2010 compared to 2009. Reductions occurred in most functional areas, as a significant effort was made to offset lower tax revenues. The most notable exceptions were in the areas of Community Development and Culture and Recreation. Expenditures for Community Development increased 62.8% in 2010 primarily due to the purchase of property in the Harborside District that was reconfigured and later resold as part of an ongoing economic development effort (.9M). Additionally expenditures for Community Development Block Grant funded projects increased by .5 million. Expenditures for Culture and Recreation increased $565,000 (9.5%) from 2009 levels. The Parks maintenance function increased $160,000 primarily due to additional maintenance and utility costs of the new Memorial Plaza. 2009 expenditures for the Conference Center operating fund were artificially low due to a $200,000 settlement of a multiyear expense reimbursement agreement that was settled and paid in that year. Expenditures for the operation of the Kitsap Conference Center increased by approximately $70,000 in 2010 due to an increase in events at the facility.

- Total revenue from governmental activities decreased by $.1 million. Tax revenues that support ongoing operations decreased by $.53 million in 2010 from the 2009 level with decreased collections in sales, business, utility and other taxes. Operating and Capital Grants and Contributions partially offset the decrease in taxes increasing .28 million over 2009. New grant funded projects in 2010 include a street improvement project at 11th St & Warren Avenue as well as a Master Planning grant for the South Kitsap Industrial Area (SKIA). Other general revenues which include interest earnings, gains on disposal of assets, and miscellaneous income, increased by $1.3 million in 2010 from the 2009 level. The largest component of this increase was the sale to a private developer of property purchased for economic development purposes ($.9 million).

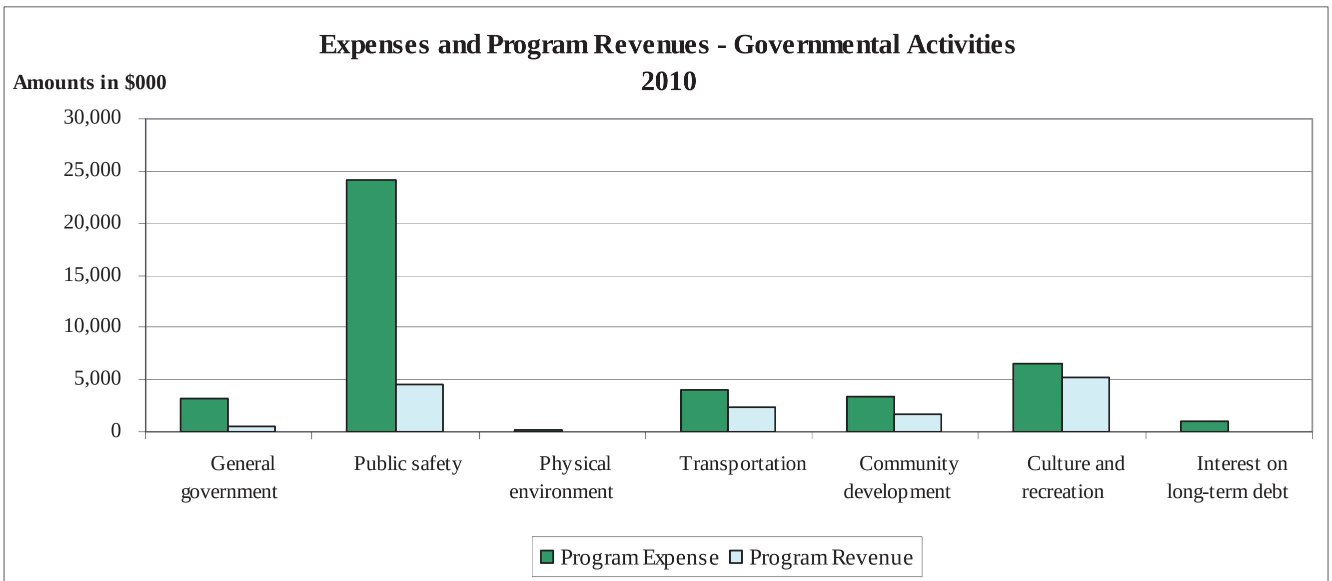
- Transfers continued to play a significant role in the increase to net assets in 2010. Transfers from Business-type activities decreased $.6 million in 2010. Payments in lieu of tax levied on the city's own utilities increased by $681,686 (23%). The levy amount was increased by 6% as of January 1, 2010 contributing to the large increase. This increase was offset by the elimination of a $1.0 million one time transfer to return equipment replacement reserves that occurred in 2009.



	Charges for services	Operating grants and contributions	Capital grants and contributions	Property taxes	Sales taxes	Business taxes	Utility taxes	Other taxes	Other general revenues
2009	9,066	2,227	3,922	8,490	6,542	3,707	4,754	2,461	217
2010	7,975	2,685	3,748	8,554	6,539	3,407	4,531	2,391	1,429



	General government	Public safety	Physical environment	Transportation	Community development	Culture and recreation	Interest on long-term debt
2009	4,001	23,923	227	4,215	2,032	5,945	962
2010	3,251	24,188	219	4,012	3,310	6,510	977

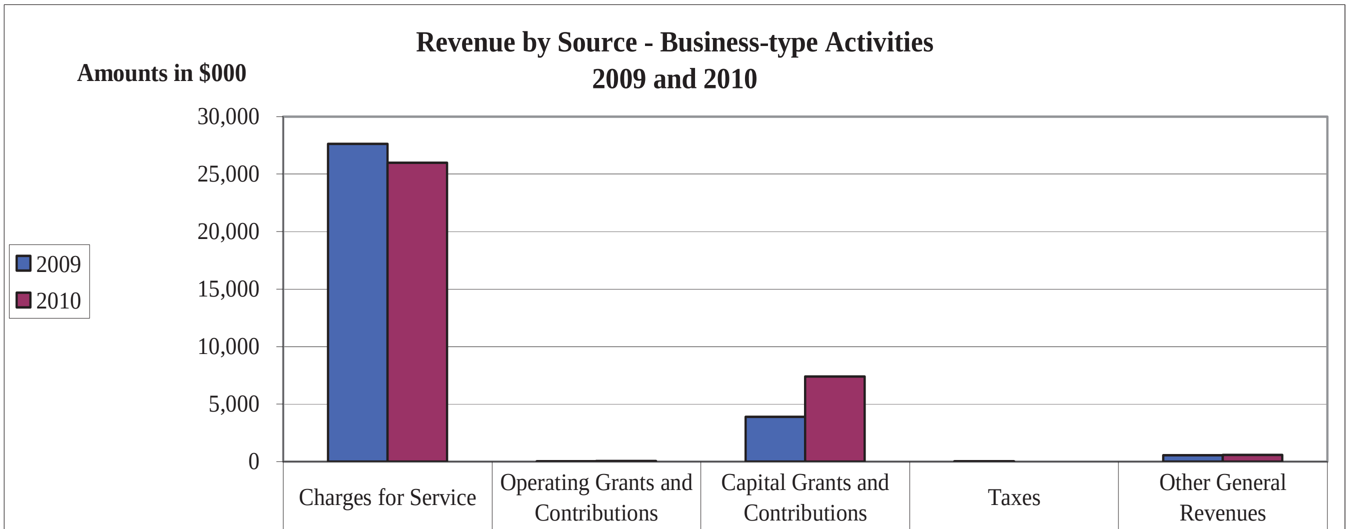


Business-type activities increased City's net assets by $9.3 million accounting for 79% of the total growth in the government's net assets.

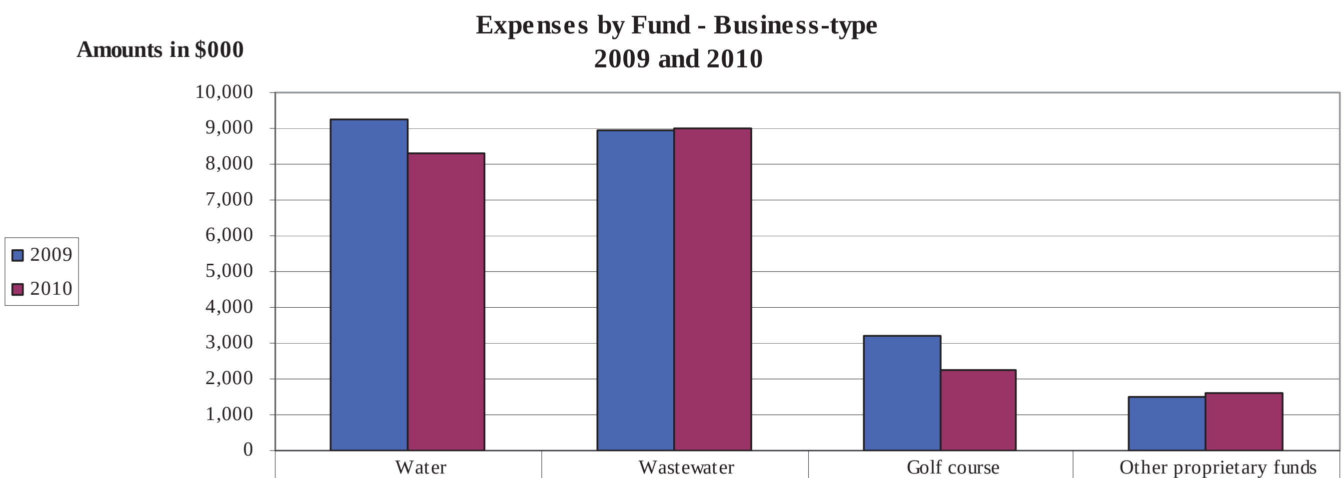
- A key element of this increase is in capital grants and contributions which continued to be a significant revenue source in 2010 increasing $3.5 million over 2009 levels. The City received $6 million in American Recovery and Reinvestment Act funding to address water quality and potential public health issues associated with failing on-site septic systems in the Gorst area of Bremerton.

- Charges for services decreased $1.6 million in 2010. This decrease was largely offset by a decrease of Golf course expenditures of $.94 million. These decreases were the result of a change to the contract for operations of the City's Gold Mountain Golf Course which moved the restaurant operations to the contractor.

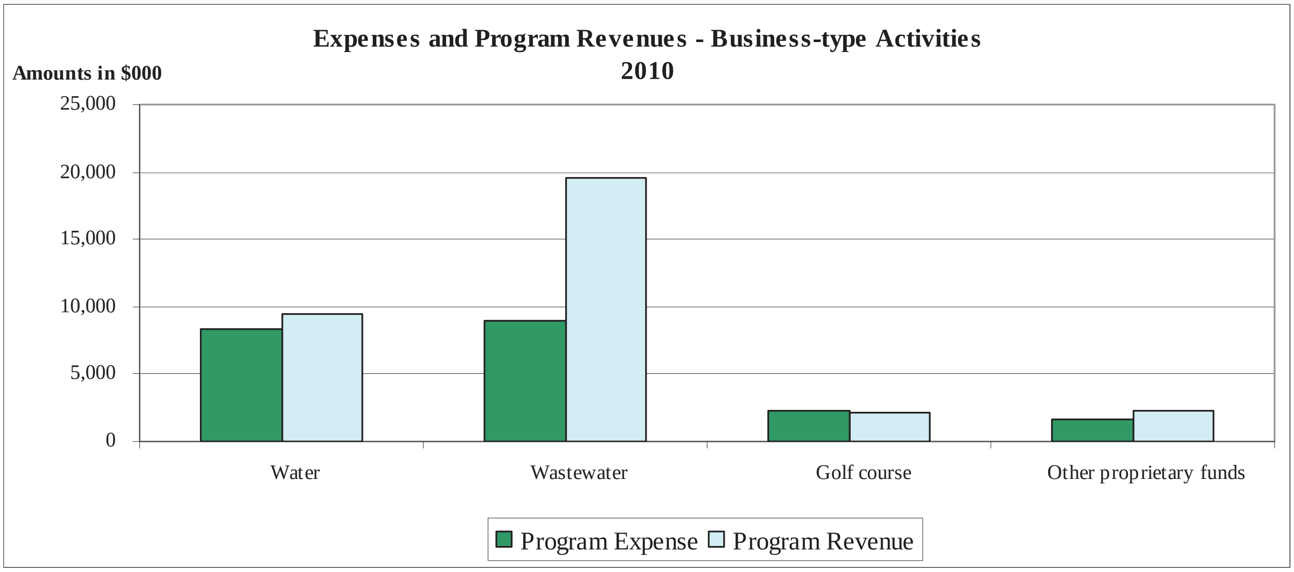
- Transfers to Governmental Activities increased by $.57 million. This increased was primarily attributable to a 6% increase in the levy of payment in lieu of tax to the General Fund effective January 1, 2010.

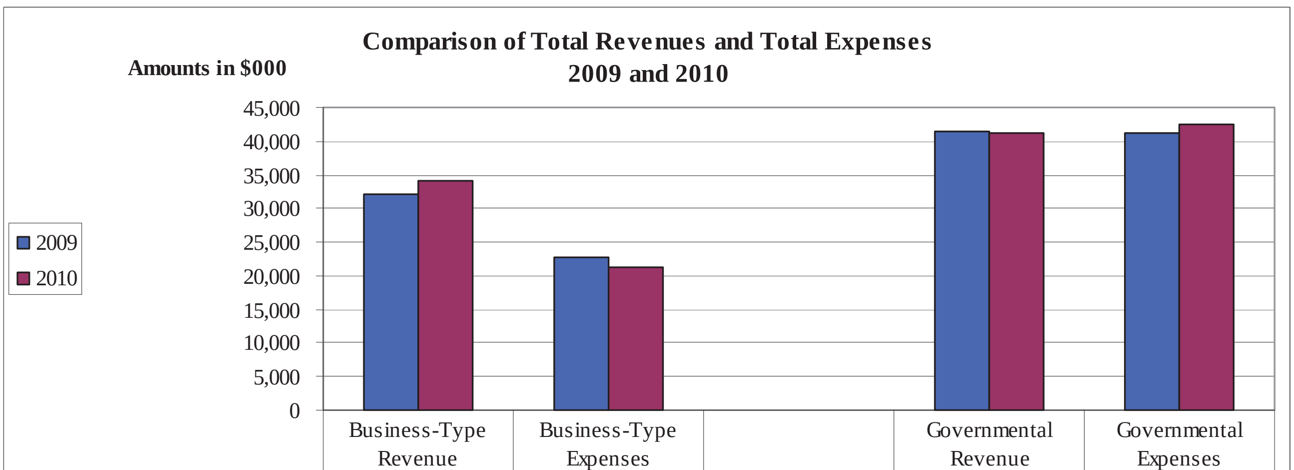


	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Other General Revenues
2009	27,620	34	3,882	15	557
2010	25,982	66	7,417	6	584



	Water	Wastewater	Golf course	Other proprietary funds
2009	9,243	8,927	3,198	1,478
2010	8,299	9,010	2,256	1,603





	Business-Type Revenue	Business-Type Expenses		Governmental Revenue	Governmental Expenses
2009	32,108	22,846		41,386	41,305
2010	34,055	21,168		41,259	42,441

Financial Analysis of the City's Funds

As discussed earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The General Fund is the primary operating fund of the City through which all receipts and payments of ordinary City operations are processed, unless they are required to be accounted for in another fund. Taxes are the major revenue source. At the end of 2010, the fund balance of the General Fund was $3.05 million. As a measure of the fund's liquidity, the ending fund balance is 9.0% of the fund's 2010 expenditures.

The General Fund balance increased in 2010 by $.99 million. Revenues increased from $30.6 million in 2009 to $31.2 million in 2010. Expenditures remained at $33.7 million during the same period. Expenditures exceeded revenues in the General Fund by $2.5 million in 2010 but were offset by net transfers and other financing sources of $3.5 million.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Other than accomplishing the programs identified in the 2010 capital improvement program there were no significant transactions pertaining to the proprietary funds.

General Fund Budget Variations

The General Fund collected revenues at 98.7% of the amended amount budgeted or $.44 million less than budgeted. Expenditures for 2010 were 96.5% of the amended budget resulting in actual expenditures being $1.3 million less than the budgeted amount. The negative revenue budget variance is substantially attributable to a delay in receipt of intergovernmental revenues related to a multi-jurisdictional police equipment grant and decreased miscellaneous revenues. The positive expenditure budget variance is largely attributable to actual expenditures in the Police and Police & Fire Pension departments coming in less than projected.

The General Fund budget was balanced in 2010. The original budget provided for no increase to the fund balance. The budget was amended two times during 2010. The final amended budget provided for an increase to fund balance of $178,315. At the conclusion of 2010, the General Fund increased fund balance by $.98 million.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2010, amounts to $271.0 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, construction in progress, utility transmission/distribution systems, and roads.

The major capital asset additions for governmental activities during 2010 were the completion of a new Court facility and reconstruction of Lions Park.

The major capital assets changes for business-type activities included the construction of wastewater and water capital improvement projects identified within the City's 2010 capital improvement plan. Beginning construction in progress was reduced for expenditures in prior years for the sewer portion of the Bremerton Boardwalk project ($.91 million).

Capital Assets for all activities decreased $3.7 million in 2010 as a result of special items and other adjustments. Governmental activities decreased $1.4 million and business activities decreased $.91 million for prior year expenditures related to the Bremerton Boardwalk project which was abandoned because of a failure to secure necessary permits stemming from the opposition of the other governmental entities involved. Construction in progress for governmental activities also was decreased by $1.4 million for prior year expenditures that were determined to not be capital in nature. Business-type activities increased $.19 million as a result of a correction for an overstatement of depreciation in the city's golf course.

Capital Assets (net of depreciation)

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2010	2009	Difference	2010	2009	Difference	2010	2009	Difference
Land	$ 15,966	$ 15,472	$ 494	$ 8,565	$ 8,138	$ 427	$ 24,531	$ 23,610	$ 921
Buildings	47,890	47,290	600	33,394	31,469	1,925	81,284	78,759	2,525
Improvements/Infrastructure	26,484	26,688	(204)	86,355	82,453	3,902	112,839	109,141	3,698
Machinery and Equipment	3,770	4,301	(531)	30,360	24,644	5,716	34,130	28,945	5,185
Construction in Progress	7,448	4,897	2,551	10,797	17,255	(6,458)	18,245	22,152	(3,907)
TOTAL	$ 101,558	$ 98,648	$ 2,910	$ 169,471	$ 163,959	$ 5,512	$ 271,029	$ 262,607	$ 8,422

Additional information on the City's capital assets can be found in Note 6 and Note 16.

Long-term debt

New debt for governmental activities in 2010 consisted of two general obligation bond issues totaling $9,130,000 to finance the construction of a parking garage on Park Avenue. General obligation refunding bonds in the amount of $9,315,000 were also issued to retire a portion of outstanding bonds issued in 2002 for public safety improvements. New debt for business-type activities in 2010 consisted of $6,149,674 of intergovernmental loans to fund Water/Wastewater capital improvement projects identified within the utilities' capital improvement plan. The long-term debt principal paid off in 2010 totaled $13,286,541.

Outstanding Debt - General Obligation and Revenue Bonds

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2010	2009	Difference	2010	2009	Difference	2010	2009	Difference
General obligation bonds	$ 30,438	$ 21,474	$ 8,964	$ 5,268	$ 5,373	$ (105)	$ 35,706	$ 26,847	$ 8,859
Revenue bonds	5,245	5,245	-	4,260	4,590	(330)	9,505	9,835	$ (330)
Revenue loans	-	-	-	31,928	28,543	3,385	31,928	28,543	$ 3,385
Total	$ 35,683	$ 26,719	$ 8,964	$ 41,456	$ 38,506	$ 2,950	$ 77,139	$ 65,225	$ 11,914

Additional Information on the City's long-term debt can be found in Note 9 of this report.

Economic Factors and Next Years Budgets and Rates

Several factors that affect the economic climate in Bremerton were considered when preparing the City's 2011 annual budget. The outlook for the nation, state and region was weighed in relation to its expected impact on Bremerton. The character of the City, including its current and future business activity and its attraction as a place to live, was evaluated. The current financial position and the ability of the City to recover from its history of economic depression have improved due to the major effort to rehabilitate Bremerton's downtown core and attract new investors to the community however, the national, regional and local economic conditions continued to show considerable weakness during 2010 and are expected to continue through 2011 and possibly beyond.

The State of Washington is continuing to face considerable budget challenges; however, the state's budget challenges have had limited effect on Bremerton's transportation capital funding received from the state. Over the past several years, Bremerton has been successful in attracting state and federal grant funds for major transportation improvement projects, including the multi-phase SR304 Bremerton Gateway transportation improvement project. Future outside funding opportunities will be highly competitive and Bremerton, due to its current economic demographics, should compete very well for certain projects. Mid- to long-term, Bremerton must increase its local revenue to address transportation needs.

Bremerton is in the midst of a revitalization and development program that will extend to all areas of the community. The center piece project is the Bremerton Harborside Development which is designed to establish the City of Bremerton as a premier waterfront community in the Puget Sound.

Of the multi-year plans to revitalize Bremerton, the following are completed as of December 2010; the Harborside Conference Center, Hotel and Plaza, Bremerton Ice Arena, Kitsap Credit Union Headquarters/Office building, downtown Naval Parking Garage, waterfront condominiums, Harborside Fountain Park and Naval Museum, downtown police station, Norm Dicks Government Center building, downtown fire station, downtown marina facility, the Downtown Pedestrian Bremerton Transit Center Access , PSNS Memorial Plaza, Fairfield Inn & Suites, downtown Municipal Courthouse and First Street Plaza. Construction of a parking garage at Burwell and Park Ave is underway. The revitalization of Lions Park is underway with completion expected in 2011. The development of a significant housing development in East Park is also currently underway.

Projects that are in the preliminary stages include; West Park mixed use redevelopment project, the revitalization of Kiwanis and Matan Parks and a multi-screen movie theater to be placed on top of the Park Plaza parking facility in the Harborside district.

These projects that are occurring throughout Bremerton are a product of both public and private investment. Economic development is a critical component of achieving a recovery from years of economic depression and to mitigate for the revenue losses incurred over the past several years from statewide initiatives. Initiative 695 and 747 resulted in losses of ongoing revenues and limited property tax growth for Washington cities, including Bremerton. These statewide initiatives have impacted current and future revenues that fund the City of Bremerton's governmental services. The ability of Bremerton to provide sufficient funding for future core government services will be impacted by the success of its economic development efforts. However, these efforts alone will be insufficient to fund these core services without the identification and implementation of additional revenue sources.

A 2004 rate study resulted in the development of a multi-year plan for increasing rates and implementing significant increases in general facility charges to cover the cost of new capital improvements. Upon the conclusion of this study, the City Council approved a multi-year utility rate increase plan to ensure that the three utilities were adequately funded in compliance with the City's adopted financial goals and policies. Rates were not increased January 1, 2010 pending the results of a planned update to this study. At the end of 2010 an internal review indicated that an increase for the water and stormwater utilities was appropriate and the City Council adopted a rate increase of 2% for the two utilities effective January 1, 2011. Because the prior rate study was completed before the changes in the local and state recessionary economic climate, the city plans to update the study toward the end of 2012 with a comprehensive rate analysis that will balance local economic factors against the utility system needs.

Requests for information

This financial report is designed to provide a general overview of the City's finances for readers with an interest in municipal finances. Questions concerning any of the information provided in this report, or requests for additional information, may be addressed to the Director of Financial Services, City of Bremerton, 345 Sixth Street, Suite 600, Bremerton, WA 98337-1873.

Statement of Net Assets
December 31, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash & investments	$ 9,725,417	$ 17,974,881	$ 27,700,298
Receivables (Note 13)	4,119,746	4,421,209	8,540,955
Interest receivable	14,550	27,333	41,883
Internal balances	(59,153)	59,153	-
Due from other governments	1,141,761	1,062,772	2,204,533
Inventories	121,163	944,512	1,065,675
Prepayments	54,885	-	54,885
Restricted assets:			
Cash & investments	6,585,640	1,336,141	7,921,781
Receivables	1,426,027	322,392	1,748,419
Other governments	264,282	-	264,282
Other	449,345	-	449,345
Notes and contracts receivable	-	537,478	537,478
Capital assets net of depreciation	101,558,174	169,470,786	271,028,960
Other assets	665,840	750,848	1,416,688
Total assets	$ 126,067,677	$ 196,907,505	$ 322,975,182
Liabilities			
Accounts/contracts payable (Note 13)	$ 2,008,805	$ 1,144,268	$ 3,153,073
Matured long term obligations	-	25,000	25,000
Due to other governmental units	18,617	-	18,617
Employee wages payable	953,800	699,067	1,652,867
Other accrued liabilities	2,132,555	208,826	2,341,381
Custodial accounts	-	8,280	8,280
Payable from restricted assets:	449,345	30,238	479,583
Claims and judgements payable	777,579	-	777,579
Bonds, notes and loans payable			
Due within One Year	1,012,500	3,190,802	4,203,302
Due in more than one year	33,949,021	38,121,343	72,070,364
Other non current liabilities	149,927	41,648	191,575
Total liabilities	$ 41,452,149	$ 43,469,472	$ 84,921,621
Net Assets			
Invested in capital assets net of related debt	$ 66,905,386	$ 128,158,641	$ 195,064,027
Restricted for:			
Tourism promotion & facilities	54,653	-	54,653
Parking system	679,419	-	679,419
Community development block grant	1,284,542	-	1,284,542
Public Television	66,697	-	66,697
Public safety	965,760	-	965,760
Debt service	309,723	1,305,903	1,615,626
Workers compensation	100,000	-	100,000
Capital projects	4,815,155	-	4,815,155
Unrestricted	9,434,193	23,973,489	33,407,682
Total Net Assets	$ 84,615,528	$ 153,438,033	$ 238,053,561

See accompanying notes to the financial statements.

Statement of Activities
For the Year Ended December 31, 2010

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Function/Program	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	$ 3,250,587	$ 577,977	$ -	$ 2,303	$ (2,670,307)	$ -	$ (2,670,307)
Public safety	24,187,445	3,013,875	1,528,987	-	(19,644,583)	-	(19,644,583)
Physical environment	219,431	71,455	-	-	(147,976)	-	(147,976)
Transportation	4,012,477	1,273,416	-	1,014,942	(1,724,119)	-	(1,724,119)
Community development	3,310,097	585,929	1,156,294	-	(1,567,874)	-	(1,567,874)
Culture and recreation	6,510,247	2,451,881	-	2,731,037	(1,327,329)	-	(1,327,329)
Interest on long-term debt	976,987	-	-	-	(976,987)	-	(976,987)
Total governmental activities	42,467,271	7,974,533	2,685,281	3,748,282	(28,059,175)	-	(28,059,175)
Business-type activities							
Water	8,298,916	8,640,615	18,000	781,137	-	1,140,836	1,140,836
Wastewater	9,009,876	13,031,955	-	6,512,291	-	10,534,370	10,534,370
Stormwater	1,603,135	2,118,465	47,812	123,890	-	687,032	687,032
Golf course	2,256,772	2,190,710	-	-	-	(66,062)	(66,062)
Total business-type activities	21,168,699	25,981,745	65,812	7,417,318	-	12,296,176	12,296,176
Total government	$ 63,635,970	$ 33,956,278	$ 2,751,093	$ 11,165,600	$ (28,059,175)	$ 12,296,176	$ (15,762,999)
	General Revenues						
	Taxes						
	Property				8,553,934	-	8,553,934
	Sales				6,538,977	-	6,538,977
	Business				3,406,535	6,486	3,413,021
	Utility				4,531,307	-	4,531,307
	Other				2,391,050	-	2,391,050
	Unrestricted investment interest				219,954	285,884	505,838
	Miscellaneous				1,239,709	291,150	1,530,859
	Gain on disposal of capital assets				(31,146)	7,212	(23,934)
	Transfers, internal activities				3,610,764	(3,610,764)	-
	Total general revenues and transfers				30,461,084	(3,020,032)	27,441,052
	Change in net assets				2,401,909	9,276,144	11,678,053
	Net asssets-beginning				84,358,110	144,890,858	229,248,968
	Prior period adjustment (Note 16)				(710,065)	183,678	(526,387)
	Special Items (Note 16)				(1,434,426)	(912,647)	(2,347,073)
	Net assets-ending				$ 84,615,528	$ 153,438,033	$ 238,053,561

See accompanying notes to the financial statements.

Balance Sheet
Governmental Funds
December 31, 2010

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash & investments	$ 1,955,063	$ 12,141,924	$ 14,096,987
Receivables (Note 13)	3,835,070	850,552	4,685,622
Due from other funds	455,624	35,292	490,916
Due from other governments	164,869	1,163,041	1,327,910
Inventories	-	37,575	37,575
Notes/contracts - deferred	-	854,826	854,826
Total assets	$ 6,410,626	$ 15,083,210	$ 21,493,836
Liabilities and Fund Balances			
Liabilities:			
Accounts/contracts payable	$ 470,281	$ 1,412,945	$ 1,883,226
Due to other funds	331,119	266,469	597,588
Due to other governments	534	18,083	18,617
Employee wages payable	753,664	112,959	866,623
Other current liabilities	-	97,053	97,053
Deferred revenues	1,805,150	1,200,020	3,005,170
Total liabilities	3,360,748	3,107,529	6,468,277
Fund balances:			
Reserved for:			
Inventories	-	37,575	37,575
Paths and trails	-	62,605	62,605
Equipment replacement	-	290,898	290,898
Unreserved, reported in:			
General fund	3,049,878	-	3,049,878
Debt service funds	-	433,778	433,778
Special revenue funds	-	4,488,327	4,488,327
Capital projects funds	-	6,662,498	6,662,498
Total fund balances	3,049,878	11,975,681	15,025,559
Total liabilities and fund balances	$ 6,410,626	$ 15,083,210	$ 21,493,836

Amounts reported for governmental activities in the statement of nets assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	101,558,174
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. (Note 2)	3,760,559
Internal service funds are used by management to charge the costs of certain activities to individual funds. These assets and liabilities are included in governmental activities in the statement of net assets.	970,189
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 2)	(36,698,953)
Net assets of governmental activities	$ 84,615,528

See accompanying notes to the financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For Year Ended December 31, 2010

	General Fund	Other Governmental Funds	Governmental Funds Total
Revenues			
Taxes	$ 21,840,756	$ 2,117,837	$ 23,958,593
Licenses and permits	903,624	261,770	1,165,394
Intergovernmental	2,598,670	5,667,781	8,266,451
Charges for services	3,880,424	1,768,483	5,648,907
Fines and forfeits	1,218,281	363,656	1,581,937
Miscellaneous	730,105	2,232,133	2,962,238
Total revenues	31,171,860	12,411,660	43,583,520
Expenditures			
Current			
General government	6,516,256	362,202	6,878,458
Public safety	21,910,061	459,507	22,369,568
Utilities and environment	219,431	-	219,431
Transportation	339,655	2,671,193	3,010,848
Economic environment	1,252,781	2,016,478	3,269,259
Mental/physical health	75,126	-	75,126
Culture and recreation	2,827,649	2,039,896	4,867,545
Debt service:			
Principal	132,500	639,000	771,500
Interest and other debt issue costs	286,781	677,991	964,772
Capital	150,885	9,210,363	9,361,248
Total expenditures	33,711,125	18,076,630	51,787,755
Excess (deficiency) of revenues over expenditures	(2,539,265)	(5,664,970)	(8,204,235)
Other financing sources (uses)			
Proceeds of Long Term Debt	-	19,050,000	19,050,000
Premiums on Bonds Sold	-	357,267	357,267
Payments to Refunded Debt Escrow Agent	-	(10,387,010)	(10,387,010)
Capital asset donations & disposal	3,754	37,176	40,930
Insurance Recoveries	920	17,709	18,629
Transfers in	4,223,965	1,407,014	5,630,979
Transfers out	(700,000)	(1,320,214)	(2,020,214)
Total other financing sources and uses	3,528,639	9,161,942	12,690,581
Other changes in fund balance			
Change in reserves for inventory	-	(10,666)	(10,666)
Net change in fund balances	989,374	3,486,306	4,475,680
Fund balances-beginning	1,957,307	8,469,144	10,426,451
Prior period adjustments	103,197	20,231	123,428
Fund balances-ending	$ 3,049,878	$ 11,975,681	$ 15,025,559

See accompanying notes to the financial statements.

Reconciliation of the Statement Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2010

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances – total government funds	$	4,475,680
Governmental funds report capital outlays as expenditures, however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		5,791,417
Revenues and expenses in the statement of activities that do not provide current financial resources are not reported in the funds.		(38,246)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(8,092,501)
Internal service funds are used by management to charge the costs of fleet replacement and risk management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.		291,655
Change in net assets of governmental activities	$	2,428,005

The notes to the financial statement are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For Year Ended December 31, 2010

	Original Budget 2010	Final Budget 2010	Actual 2010	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	$ 23,005,000	$ 21,837,000	$ 21,840,756	$ 3,756
Licenses and permits	953,000	883,000	903,624	20,624
Intergovernmental	1,900,000	2,571,800	2,598,670	26,870
Charges for services	3,908,100	4,063,100	3,880,424	(182,676)
Fines and forfeits	1,435,000	1,255,000	1,218,281	(36,719)
Other Revenues	4,863,000	5,237,699	4,958,744	(278,955)
Total revenues	36,064,100	35,847,599	35,400,499	(447,100)
Expenditures				
City Council	317,000	322,300	319,425	2,875
Executive	445,000	408,000	391,400	16,600
Finance	1,421,400	1,296,400	1,173,091	123,309
Legal	1,005,100	994,200	935,917	58,283
Human Resources	368,700	348,700	287,350	61,350
Community Development	1,300,600	1,296,596	1,252,781	43,815
Municipal Court	1,406,800	1,377,145	1,310,553	66,592
City Auditor	158,400	158,400	153,511	4,889
Law Enforcement	10,671,700	10,885,248	10,530,707	354,541
Fire/Emergency Medical Services	8,143,900	8,162,457	8,132,810	29,647
Police & Fire Pension	2,701,000	2,701,000	2,452,947	248,053
Facilities	819,000	869,294	823,706	45,588
Parks & Recreation	3,242,500	2,964,750	2,926,947	37,803
Engineering	321,000	408,194	379,845	28,349
Economic Development	-	-	-	-
Non-Departmental	3,742,000	3,476,600	3,340,135	136,465
Total expenditures	36,064,100	35,669,284	34,411,125	1,258,159
Excess (deficiency) of revenues over expenditures	-	178,315	989,374	811,059
Fund balances-beginning	2,370,509	1,938,306	2,060,504	122,198
Fund balances-ending	$ 2,370,509	$ 2,116,621	$ 3,049,878	$ 933,257
Expenditures				
Personnel	25,439,800	25,330,700	24,611,992	718,708
Supplies, services & taxes	9,026,900	9,104,084	8,528,967	575,117
Capital expenditure	-	15,900	150,885	(134,985)
Debt Service	467,400	468,600	419,281	49,319
Transfers	1,130,000	750,000	700,000	50,000
Total expenditures	36,064,100	35,669,284	34,411,125	1,258,159

See accompanying notes to the financial statments.

Statement of Net Assets
Proprietary Funds
December 31, 2010

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Stormwater	Total	Internal Service Funds
Assets						
Current assets:						
Cash & investments	$ 3,449,521	$ 404,032	$ 5,995,768	$ 2,265,132	$ 12,114,453	$ 7,974,498
Restricted Cash	$ 67,438	$ -	$ 1,268,703	$ -	$ 1,336,141	100,000
External receivables	1,506,719	3,350	2,479,278	430,811	4,420,158	4,403
Restricted Special Assesments Rec	187,780	-	-	-	187,780	-
Interest receivable	4,978	572	10,282	3,206	19,038	11,429
Due from other funds	234,656	-	86,761	14,169	335,586	170,971
Due from other governments	216,783	-	820,734	25,255	1,062,772	-
Inventories	677,136	-	267,376	-	944,512	83,588
Prepayments	-	-	-	-	-	54,885
Total current assets	6,345,011	407,954	10,928,902	2,738,573	20,420,440	8,399,774
Noncurrent assets:						
Notes and contracts receivable	537,478	-	-	-	537,478	-
Restricted Special Assessments Rec	134,612	-	-	-	134,612	-
Prepaid Pension	-	-	-	-	-	449,345
Capital assets net of depreciation	58,547,981	7,514,229	94,872,107	4,092,786	165,027,103	4,462,249
Other noncurrent assets	512,605	23,628	213,644	-	749,877	971
Total noncurrent assets	59,732,676	7,537,857	95,085,751	4,092,786	166,449,070	4,912,565
Total assets	$ 66,077,687	$ 7,945,811	$ 106,014,653	$ 6,831,359	$ 186,869,510	$ 13,312,339
Liabilities						
Current liabilities:						
Accounts/contract payable	$ 724,068	$ 28,361	$ 345,406	$ 46,433	$ 1,144,268	$ 125,579
Matured long term obligations	-	-	25,000	-	25,000	-
Due to other funds	118,095	5,169	218,565	40,825	382,654	15,258
Other accrued liabilities	452,786	39	380,440	104,423	937,688	530,288
Current portion of long term debt	607,283	105,000	2,468,655	9,864	3,190,802	-
Custodial accounts	3,830	3,117	1,333	-	8,280	-
Total current liabilities	1,906,062	141,686	3,439,399	201,545	5,688,692	671,125
Noncurrent liabilities:						
Claims and judgements payable	-	-	-	-	-	1,226,924
Bonds, notes and loans payable	8,392,010	4,907,947	24,693,151	128,235	38,121,343	-
Compensated absences	20,702	-	15,462	5,484	41,648	5,329
Total noncurrent liabilities	8,412,712	4,907,947	24,708,613	133,719	38,162,991	1,232,253
Total liabilities	$ 10,318,774	$ 5,049,633	$ 28,148,012	$ 335,264	$ 43,851,683	$ 1,903,378
Net Assets						
Invested in captial assets, net of related debt	49,548,688	2,501,282	67,710,301	3,954,687	123,714,958	4,462,249
Restricted for debt service	37,200	-	1,268,703	-	1,305,903	-
Unrestricted	6,173,025	394,896	8,887,637	2,541,408	17,996,966	6,946,712
Total net assets	$ 55,758,913	$ 2,896,178	$ 77,866,641	$ 6,496,095	$ 143,017,827	$ 11,408,961

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	10,420,206
Net assets of business-type activities	$ 153,438,033

See accompanying notes to the financial statements.

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2010

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Stormwater	Total	Internal Service Funds
Operating revenues:						
Charges for services	$ 8,187,559	$ 2,116,740	$ 13,031,903	$ 2,118,465	$ 25,454,667	$ 4,683,218
Interest & dividend income	-	-	-	-	-	17,362
Other operating revenue	471,616	73,970	608	47,812	594,006	384,141
Total operating revenues	8,659,175	2,190,710	13,032,511	2,166,277	26,048,673	5,084,721
Operating expenses:						
General operations	1,626,350	626,607	2,585,668	479,991	5,318,616	2,511,012
Maintenance	2,494,379	1,191,799	1,911,124	706,850	6,304,152	-
Customer service and marketing	379,970	-	282,840	44,943	707,753	-
General administration	1,055,364	69,845	839,960	269,916	2,235,085	299,197
Depreciation and amortization	1,690,372	170,534	2,625,239	92,847	4,578,992	745,432
Property, excise and B&O taxes	382,749	9,979	372,923	34,848	800,499	-
Risk transfer payments	-	-	-	-	-	420,358
Payments to claimants & beneficiaries	-	-	-	-	-	576,657
Other operating expenses	632,192	-	-	-	632,192	54,512
Total operating expenses	8,261,376	2,068,764	8,617,754	1,629,395	20,577,289	4,607,168
Operating income (loss)	397,799	121,946	4,414,757	536,882	5,471,384	477,553
Nonoperating revenues (expenses)						
Interest and investment revenue	100,951	8,528	75,352	26,059	210,890	88,301
Interest expense	(150,194)	(188,008)	(447,494)	(5,722)	(791,418)	-
Gain (loss) on capital asset disposal	6,752	460	-	-	7,212	(22,802)
Other nonoperating revenue	287,955	49	9,487	145	297,636	23,606
Total nonoperating revenues (expenses)	245,464	(178,971)	(362,655)	20,482	(275,680)	89,105
Income (loss) before contributions and transfers	643,263	(57,025)	4,052,102	557,364	5,195,704	566,658
Capital contributions	780,577	-	6,511,735	123,890	7,416,202	-
Transfers in	-	-	100,000	-	100,000	437,029
Transfers out	(1,267,675)	-	(2,015,319)	(427,771)	(3,710,765)	(437,029)
Change in net assets	156,165	(57,025)	8,648,518	253,483	9,001,141	566,658
Total net assets - beginning	55,602,748	2,769,525	70,130,770	6,242,612		10,842,303
Prior period adjustments (Note 16)	-	183,678	-	-		-
Special Items (Note 16)	-	-	(912,647)	-		
Total net assets - ending	$ 55,758,913	$ 2,896,178	$ 77,866,641	$ 6,496,095		$ 11,408,961
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					275,003	
Change in net assets of business-type activities					$ 9,276,144	

See accompanying notes to the financial statements.

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2010

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Stormwater	Total	Internal Service Funds
Cash Flows From Operating Activities						
Cash received from customers	$ 8,188,249	$ 2,110,382	$ 13,176,714	$ 2,142,497	$ 25,617,842	$ 4,671,837
Interest on investments	-	-	-	-	-	17,982
Cash payments to suppliers	(2,395,117)	(1,889,249)	(2,730,085)	(421,694)	(7,436,145)	(1,819,908)
Cash payments to employees	(3,709,969)	(1,268)	(3,076,270)	(992,953)	(7,780,460)	(1,130,261)
Purchase of insurance	(145,317)	(24,585)	(206,057)	(36,337)	(412,296)	(459,149)
Payment for insurance claims	-	-	-	-	-	(991,465)
Other operating receipts and payments	70,811	74,861	(372,385)	(11,219)	(237,932)	384,141
Net cash provided by operating activities	2,008,657	270,141	6,791,917	680,294	9,751,009	673,177
Cash Flows From Noncapital Financing Activities						
Transfers in	-	-	-	-	-	600,923
Transfers out	(1,266,341)	-	(2,011,247)	(324,251)	(3,601,839)	(511,917)
Other nonoperating revenues/expenses	289,183	49	2,169	139	291,540	23,606
Net cash provided (used) by noncapital financing activities	(977,158)	49	(2,009,078)	(324,112)	(3,310,299)	112,612
Cash Flows From Capital and Related Financing Activities						
Acquisition and construction of capital assets	(3,757,178)	5,169	(7,478,538)	(43,074)	(11,273,621)	(396,951)
Proceeds/costs on sale of assets	9,046	460	3,452	-	12,958	55,538
Capital contributions	482,601	-	419,344	76,486	978,431	-
Transfer in for asset construction	-	-	100,000	-	100,000	-
Transfer out for asset construction	-	-	-	(100,000)	(100,000)	-
Collections on notes receivable	53,556	-	-	-	53,556	-
Loan/grant proceeds	2,454,633	-	9,007,421	-	11,462,054	-
Principal paid on bonds	(42,000)	(105,000)	(288,000)	-	(435,000)	-
Principal paid on other debt	(566,284)	-	(2,188,896)	(9,864)	(2,765,044)	-
Interest paid on bonds and other debt	(142,309)	(161,189)	(467,668)	(5,919)	(777,085)	-
Net cash provided (used) for capital and related financing activities	(1,507,935)	(260,560)	(892,885)	(82,371)	(2,743,751)	(341,413)
Cash Flows From Investing Activities						
Proceeds from repayment of loans	359,662	-	-	-	359,662	506,583
Proceeds from special assessments	-	-	-	-	-	830
Interest on loans and investments	56,696	8,648	70,998	26,379	162,721	87,348
Net cash provided (used) in investing activities	416,358	8,648	70,998	26,379	522,383	594,761
Net increase (decrease) in cash and cash equivalents	(60,078)	18,278	3,960,952	300,190	4,219,342	1,039,137
Cash and cash equivalents - beginning of year	3,577,037	385,754	3,303,519	1,964,942	9,231,252	7,035,361
Cash and cash equivalents - end of year	$ 3,516,959	$ 404,032	$ 7,264,471	$ 2,265,132	$ 13,450,594	$ 8,074,498
Cash at the end of the year consists of:						
Operating fund cash	3,449,521	404,032	5,995,768	2,265,132	12,114,453	7,974,498
Restricted cash	67,438	-	1,268,703	-	1,336,141	100,000
Total cash at end of year	$ 3,516,959	$ 404,032	$ 7,264,471	$ 2,265,132	$ 13,450,594	$ 8,074,498

See accompanying notes to the financial statements.

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2010

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Stormwater	Total	Internal Service Funds
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	$ 397,799	$ 121,946	$ 4,414,757	$ 536,882	$ 5,471,384	$ 477,553
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	1,690,372	170,534	2,625,239	92,847	4,578,992	745,432
Abandonment of capital project	-	-	-	39,514	39,514	-
Decrease (increase) in receivables	(6,425)	1,100	144,278	24,032	162,985	2,268
Decrease (increase) in due from other funds/govt	(20,730)	-	6,455	(24,183)	(38,458)	(152,138)
Decrease (increase) in prepaid expenses	-	-	(11,391)	-	(11,391)	(478,410)
Decrease (increase) in inventory	(97,340)	-	-	-	(97,340)	848
Increase (decrease) in accounts payable	68,171	(21,312)	(348,663)	27,919	(273,885)	86,984
Increase (decrease) in due to other funds/govt	4,491	(159)	(7,705)	702	(2,671)	510
Increase (decrease) in employee wages payable	(16,334)	(1,268)	(32,386)	-	(49,988)	(3,925)
Increase (decrease) in employee vacations payable	(19,943)	-	-	(17,419)	(37,362)	(5,945)
Increase (decrease) in other payables	4,328	(700)	1,333	-	4,961	-
Increase (decrease) in deferred revenues	4,268	-	-	-	4,268	-
Net cash provided by operating activities	$ 2,008,657	$ 270,141	$ 6,791,917	$ 680,294	$ 9,751,009	$ 673,177
Noncash investing, capital and financial activities;						
Developers contributed infrastructure	$ 126,778	$ -	$ 80,729	$ 47,404	$ 254,911	$ -

See accompanying notes to the financial statements.

Statement of Fiduciary Net Assets
Fiduciary Funds
As of December 31, 2010

		Agency Funds
Assets		
Cash and cash equivalents	$	374,623
Interest receivable		-
Interfund receivables		-
Total assets	$	374,623
Liabilities		
Accounts/contracts payable		58,143
Due to other funds		1,974
Other current liabilities		314,506
Total liabilities	$	374,623

See accompanying notes to the financial statements.

Notes to Financial Statements
January 1, 2010 – December 31, 2010

1. Summary of significant accounting policies

The financial statements of the City of Bremerton have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The City of Bremerton was incorporated on October 14, 1901 and operates under the laws of the State of Washington applicable to a home-rule charter city with a Council/Mayor form of government. The City is a general purpose government which provides police, fire, water, wastewater, street maintenance, parks and recreation, planning and zoning, municipal court and general governmental services to its citizens.

On February 4, 2009 the City authorized and approved the creation of a Transportation Benefit District coextensive with the boundaries of the City in order to exercise the powers available under RCW 36.73. This blended component unit is governed by a board composed of the nine members of the Bremerton City Council, who serve in an ex-officio and independent capacity. The primary purpose of the District is the acquisition, construction, improvement, provision and/or funding of the maintenance of City street and related infrastructure. Financial Statements for this unit are not included for the year ending 12/31/10 as no fees have been enacted nor transportation improvements been funded.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support.

The statement of activities displays the extent to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Our policy is to not allocate indirect costs to a specific function. Program revenues are those items that are applicable to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grants and contributions that are restricted to meeting the operational or capital requirement of a particular function are also included. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Fiduciary funds, however, are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the city considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, fines and certain receivables for services provided are associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The general fund is the City's operating fund. It accounts for all financial resources and transactions except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The water and wastewater funds account for activities related to the ongoing operations of the City's water and sewer systems.

The golf course fund accounts for the operations and maintenance of the City owned Gold Mountain golf course.

In addition to these major funds, the stormwater fund is the only non-major proprietary fund and is also reported on the proprietary fund statements.

Additionally, the City reports the following fund types:

Internal service funds account for the accumulation of funds used to repair City vehicles and equipment and to replace them at the end of their useful lives. Funds are also accumulated for the purpose of carrying out the city's Risk Management activities. In both cases City departments contribute according to the benefit provided by each fund.

Agency funds account for assets held by a government as an agent for individuals, private organizations, other governments, and/or other funds. All funds are used for custodial or clearing purposes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City of Bremerton has elected not to follow subsequent private-sector guidance.

The City eliminates the effect of interfund activity from the government-wide financial statements. There are some exceptions to this rule such as charges between the utility function and other functions within the City, and any payments-in-lieu of taxes. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include charges to customers, special assessments, operating grants and contributions and capital grants and contributions. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. Operating revenues includes charges for services rendered for water, sewer, stormwater as well as golf fees and timber revenues. Operating expenses include administrative, maintenance expenses and depreciation on capital assets. All revenues and expenses not falling into the above broad categories are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources as needed.

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for all funds except fiduciary fund types. All appropriations lapse at the end of each year. The budget is prepared using a basis of accounting substantially the same as the GAAP basis used in accounting for governmental funds. The basis for budgeting differs from GAAP accounting in that fund balance is adjusted to exclude fund debt. Budgeted revenues and expenditures include the flow of funds resulting from the issue and redemption of fund debt which are not recognized under GAAP basis accounting. There were no reconciling items between the Budgetary basis to GAAP for the Statement of Revenues, Expenditures and Changes in Fund Balances to Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund for 2010.

2. Amending the Budget

The City's budget is adopted at the department and category group level. The five distinct category groups are 1) Personnel, 2) Supplies, Services and Taxes, 3) Debt Service, 4) Capital Expenditures and 5) Transfers. Expenditures may not legally exceed appropriations at that level of detail. The Mayor may authorize a one time transfer of less than $10,000 between category groups within a department. All other supplemental appropriations as well as transfers and revisions within funds must be approved by the legislative authority. The City's budget was amended two times in 2010.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all supplemental appropriations authorized for the fiscal year.

E. Assets, Liabilities and Equities

1. Cash and Investments

It is the City's policy to invest all temporary cash surpluses. These investments are reported on the Statement of Net Assets as cash and investments. Included in cash and investments are currency on hand, demand deposits with banks or other financial institutions, investments with the State Investment Pool, and investments in U.S. Treasury and Agency Securities. At December 31, 2010 the City held $33,095,735 in investments of surplus cash.

The amounts reported as cash and investments also include compensating balances maintained with the City's bank in lieu of payments for services rendered. The average compensating balance maintained during 2010 was $2,693,369.

For purposes of the statement of cash flows the City considers all investments, including restricted assets, to be cash equivalents. All investments can be liquidated on demand.

2. Receivables

External receivables consist of property, B&O, utility, sales and parking taxes as well as other revenues earned by the City from the County, State and other taxpayers but not yet received. Also included are customer accounts receivable which consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

Interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2010, $77,733 of special assessments receivable were delinquent.

The amounts reported as notes and contracts receivable represent housing rehabilitation loans resulting from the federal Department of Housing and Urban Development Community Development Block Grant programs. Deferred notes and contracts on the fund financial statement consist of outstanding loan balances that are liens against the property benefited

3. Amounts Due To and From Other Funds

Amounts due to and from other funds include interfund loans receivable/payable as well as outstanding balances that have resulted from the provision of services between funds as well as corrections of prior transactions. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." A summary schedule of interfund loans receivable and payable is furnished in Note 12.

4. Amounts Due To and From Other Governmental Units

Amounts due to and from other governments are for grants, entitlements and contracts.

5. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are purchased. The reserve for inventory is equal to the ending amount of inventory to indicate that a portion of the fund balance is not available for future expenditures. A comparison to market value is not considered necessary.

In proprietary funds, a perpetual inventory is maintained, in which the cost is capitalized when inventory items are purchased, and expensed when the item is consumed. Inventory is recorded at average cost which approximates market value.

6. Restricted Assets and Liabilities

These accounts contain resources for programs, construction, replacement, and debt service in both governmental and business type funds. The current portion of related liabilities is shown as *Payable from Restricted Assets*. Specific debt service reserve requirements are described in Note 9.

Restricted assets are composed of the following:

Governmental type:	
Cash and investments - Contruction	$ 4,717,722
Cash and investments - Parking system	326,815
Cash and investments - HUD programs	156,969
Cash and invesments - Public safety	965,760
Cash and invesments - Public Television	66,697
Cash and investments - Workers compensation	100,000
Cash and investments - Tourism promotion	22,800
Cash and investments - Debt Service	228,877
External receivables - HUD programs	863,291
External receivables - Tourism promotion	31,853
External receivables - Parking system	352,604
External receivables - Construction	97,433
External Receivables - Debt Service	80,846
Due from other governments - HUD	264,282
Prepaid Pension- Workers Compensation	449,345
Total governmental	$ 8,725,294
Business type:	
Cash and investments - Debt service	$ 1,182,446
Cash and investments - Construction	123,457
Cash and investments - Deposits	30,238
External receivables - Debt service	322,392
Total business	$ 1,658,533

7. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than $10,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Note 6 contains the change in net assets by category for 2010.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is not included as a part of the capitalized value of the assets constructed. There was $19,782 of interest expense incurred during 2010 for business-type capital assets under construction.

Property, plant and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	50 Years
Improvements Other than Buildings – Governmental Assets	20 Years
Improvements Other than Buildings – Proprietary Assets	50 Years
Infrastructure	10-15 Years
Plant Machinery and Equipment	20 Years
Furniture and Fixtures	20 Years
Vehicles and Similar Equipment	10 Years
Data Processing/Electronic Equipment	5 Years

8. Other Noncurrent Assets

This account reflects various non-current assets of the City including utility water rights, standing timber purchased under the City's utility land management plan and the unamortized portion of debt issuance costs.

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits including compensated absences. Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Accrued vacation is payable at resignation, retirement or upon death of the employee. Maximum vacation carryover hours are set by contract for all bargaining unit employees. The maximum hours allowed to be carried over to the next fiscal year range from 240 to 360 depending on the unit. Payment for 35% of sick leave is only paid at retirement. Outstanding sick leave at year end is not accrued because the payment cannot be deemed probable nor can the amount be reasonably estimated.

10. Long-term Debt

The City issues debt to finance the purchase or construction of capital assets. Note 9 contains outstanding debt at 12/31/10 and bond and debt service requirements to maturity.

11. Deferred Revenue

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria has not been met.

12. Reservations of Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

2. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of aggregated differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between total fund balance and total net assets as reported in the government-wide statement of net assets. The details of the aggregated differences are presented below.

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds:

Capital Assets of governmental funds net of depreciation	$ 101,539,608
Capital Assets of Internal Service funds included in govermental activities net of depreciation	18,566
Net adjustment to increase fund balance - total governmental funds to arrive at net assets of governmental activities	$ 101,558,174

Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:

Deferred revenue for taxes and loans receivable due beyond the city's 30 day measurable and available period	$ 3,005,170
Investment interest accrued beyond the city's 30 day measurable and available period	11,416
Build America Bond subsidy beyond the city's 30 day measurable and available period	78,133
Deferred charge for bond issue costs	308,733
Other post-employment benefits	357,107
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	$ 3,760,559

Internal Service funds are used by management to charge the costs of certain activities to individual funds:

Net assets of Internal service funds included in governmental activities	$ 988,755
Net capital assets of Internal Service funds included in governmental activities	(18,566)
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	$ 970,189

Some liabilities, including bonds, loans and compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:

GO bonds payable	$ (30,437,685)
Less: Issuance premiums	(365,584)
Add: Deferred amount on refunding	1,086,563
Revenue bonds payable	(5,244,815)
Accrued interest payable	(291,457)
Compensated absences	(1,445,975)
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	$ (36,698,953)

B. Explanation of aggregated differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The details of the aggregated differences are presented below.

Government funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	$ 9,361,248
Depreciation	(3,497,758)
Loss on retirement of capital assets	(72,073)
Net adjustment to increase net change in fund balances - governmental funds to arrive at change in net assets - govermental activities	$ 5,791,417

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

GO bond principal paid	$ 10,086,500
Principal of GO Bonds Issued	$ (19,050,000)
Revenue bond principal paid	0
Unamortized debt issuance costs	870,999
Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net assets of governmental activities	$ (8,092,501)

Some revenues and expenses reported in the statement of activities do not provide/do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in accrued interest receivable	$ (6,542)
Change in deferred property taxes receivable	(65,961)
Change in court fines receivable	(32,636)
Change in block grant loans receivable	(11,987)
Change in parking/red light fines receivable	111,244
Change in Build America Bond subsidy receivable	78,133
Change in other post-employment benefits payable	76,663
Change in accrued interest payable	(246,602)
Change in compensated absences payable	59,442
Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net assets of governmental funds	$ (38,246)

The net revenue of certain internal service fund activities are governmental in nature and are included in the net change in assets in the government-wide statements.

Net revenue of risk management activities	$ 425,780
Net revenue of information technology activities	80,942
Net revenue of equipment maintenance activities	(215,067)
Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net assets of governmental funds	$ 291,655

3. Stewardship, Compliance and Accountability

Washington State law (RCW 43.09.230) requires annual reports to be certified and filed with the State Auditor's Office 150 days after the close of each fiscal year. In addition, certain long-term debt issues have continuing disclosure requirements that call for submission of the City's annual report with the Municipal Securities Rulemaking Board Electronic Municipal Market Access (EMMA) program no later than September 30 of the year following the close of the fiscal year. Federal grants also require submission of the annual report to the federal oversight agency no later than September 30 of the year following closing.

4. Deposits and Investments

A. Deposits

The City'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).

B. Investments

As required by state law, all investments of the City funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, the State Treasurer's Investment Pool, or certificates of deposit with Washington State banks and savings and loan institutions. All temporary investments are stated at market value. Other property and investments are shown on the statement of net assets at cost.

Investment Type	Rating	Weighted Average Maturities	Fair Value	% of Portfolio
Cash				
FDIC or PDPC insured bank deposits			$2,873,247	
Cash on hand			27,720	
Total Cash			2,900,967	
Investments				
US Agency securities				
US Treasury Notes	AAA	0.94	2,008,900	6%
Federal Farm Credit Banks	AAA	1.67	4,046,040	12%
Federal Home Loan Bank	AAA	0.94	2,013,720	6%
TLGP Debt Obligation	AAA	0.92	2,049,780	6%
Washington State Local Government Inv. Pool	NR	0.13		
Surplus Investable Funds			10,017,487	
Bond Proceeds			7,691,808	
			17,709,295	54%
City of Bremerton LTGO Bonds	NR	11.37	5,268,000	16%
Total Investments			33,095,735	
Total Cash & Investments			35,996,702	

Interest Rate Risk. As a means of limiting its exposure to realized fair value losses arising from rising interest rates, the City's investment policy requires that to the extent possible maturities be matched with anticipated cash flow requirements. Unless matched to a specific cash flow, the City is limited by the investment policy to maturities of five years or less.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy limits investments to those authorized by State of Washington statutes governing the investment of public funds. The City's investments in agency securities were rated AAA by Standard & Poor's Rating Service. The Washington State Local Government Investment Pool which operates in a manner consistent with the section 2a-7 of the SEC's Investment Act of 1940, is unrated.

Concentration of Credit Risk. As can be seen in the preceding table, the City is in compliance with its investment policy which requires that (with the exception of U.S. Treasury securities and the State Investment Pool) no more than 30% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

Custodial Credit Risk. The custodial credit risk for deposits is the risk that in the event of bank failure, the City's deposits may not be recovered. The City of Bremerton's investment policy requires deposits to be in a qualified financial institution. The definition of qualified institution is described in RCW 39.58.080 and the bank must be a participant in the State of Washington's Public Depository Protection Commission (PDPC).

The custodial credit risk for safekeeping of securities is the risk in the event that the City would not have access to investment holdings. The City's investment policy requires that all security transactions be conducted on a delivery versus payment basis. Securities will be held in a third party custodial account designated by the City Treasurer.

5. Property Taxes

The Kitsap County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed the end of each month.

A. 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 is due.

Property taxes are recorded as a revenue and receivable when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenue and recognized as revenue of the period to which they apply. 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.

RCW 84.52.043 allows a city to levy taxes of up to $3.375 per $1,000 of taxable property in the city and RCW 41.14.060 allows an additional $0.225 per $1,000 for any municipal purpose, if not required to fund pension programs. For cities annexed to a library district, such as the City, the maximum levy rate is reduced by the amount of the library district levy. For tax year 2009, the Kitsap Regional Library District levied $0.29 per $1,000 of assessed valuation, and therefore the City's maximum levy rate is $3.31 per $1,000 of assessed valuation. These taxes may be levied without a vote of the people. This limitation is exclusive of a potential levy for the maintenance of a local improvement guaranty fund, which the City does not levy.

The City's regular levy for 2010 was $2.16 per $1,000 on an assessed valuation of $2.899 billion for a total regular levy of $6,272,513.

Special levies, approved by the voters are not subject to the above limitations. In 2010, the City levied an additional $.81 per $1,000 for General Obligation Bonds and Emergency Medical Services.

Article VII, Section 2 of the Washington Constitution, as amended in 1973, limits aggregate regular property tax levies by the State and all taxing districts, except port districts and public utility districts, to $10 per $1,000 or one percent of the true and fair value of property. RCW 84.52.050 provides the same limitation by statute.

6. Capital Assets

1/1/2010 Beginning Balance has been adjusted for prior year corrections and special items (Note 16).

Capital asset activity for the year ended December 31, 2010 was as follows:

Governmental Activities	Beginning Balance 1/1/2010	Increases	Decreases	Ending Balance 12/31/2010
Capital assets, not being depreciated:				
Land	$ 15,472,031	$ 494,543	-	$ 15,966,574
Construction in progress	2,060,219	7,242,110	1,854,732	7,447,597
Total capital assets, not being depreciated	17,532,250	7,736,653	1,854,732	23,414,171
Capital assets, being depreciated:				
Buildings/building improvements	54,568,308	1,744,444	42,994	56,269,758
Improvements other than buildings	16,519,121	440,725	78,143	16,881,703
Machinery and equipment	9,022,410	116,528	437,642	8,701,296
Infrastructure	33,277,052	1,177,631	-	34,454,683
Total capital assets, being depreciated	113,386,891	3,479,328	558,779	116,307,440
Less accumulated depreciation for:				
Buildings/buildings improvements	7,279,104	1,136,275	35,680	8,379,699
Improvements other than buildings	7,057,526	781,081	60,816	7,777,791
Machinery and equipment	4,721,276	587,105	377,309	4,931,072
Infrastructure	16,050,320	1,024,555	-	17,074,875
Total accumulated depreciation	35,108,226	3,529,016	473,805	38,163,437
Total capital assets, being depreciated, net	78,278,665	(49,688)	84,974	78,144,003
Governmental activities capital assets, net	$ 95,810,915	$ 7,686,965	$ 1,939,706	$ 101,558,174

Business-type Activities	Beginning Balance 1/1/2010	Increases	Decreases	Ending Balance 12/31/2010
Capital assets, not being depreciated:				
Land	$ 8,138,463	$ 496,946	70,508	$ 8,564,901
Construction in progress	16,343,063	11,208,065	16,754,375	10,796,753
Total capital assets, not being depreciated	24,481,526	11,705,011	16,824,883	19,361,654
Capital assets, being depreciated:				
Buildings/building improvements	48,163,129	2,840,166	111,910	50,891,385
Improvements other than buildings	117,170,640	6,173,189	426,756	122,917,073
Machinery and equipment	46,681,795	7,644,613	1,506,524	52,819,884
Total capital assets, being depreciated	212,015,564	16,657,968	2,045,190	226,628,342
Less accumulated depreciation for:				
Buildings/buildings improvements	16,694,021	914,861	111,910	17,496,972
Improvements other than buildings	34,717,959	2,283,369	438,791	36,562,537
Machinery and equipment	21,854,527	2,057,947	1,452,773	22,459,701
Total accumulated depreciation	73,266,507	5,256,177	2,003,474	76,519,210
Total capital assets, being depreciated, net	138,749,057	11,401,791	41,716	150,109,132
Business-type activities Capital assets, net	$ 163,230,583	$ 23,106,802	$ 16,866,599	$ 169,470,786

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:		
General government	$	232,895
Public safety		600,658
Transportation, including depreciation of general infrastructure assets		1,042,270
Economic environment		348
Culture and recreation		1,609,700
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		21,608
Total depreciation expense - Governmental activities	$	3,507,479
Business-type activities:		
Water	$	1,643,734
Wastewater		2,625,238
Stormwater		92,847
Golf		170,534
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		723,824
Total depreciation expense - Business-type activities	$	5,256,177

Construction Commitments:

At December 31, 2010 the City had several construction projects underway. The following table contains the projects and status at year end.

Project		Spent to Date		Remaining Commitment
WA Ave Sewer Main		34,710		87,023
Gorst Septic System		3,760,601		247,588
Ultraviolet Treament Facility		3,959,542		1,926,666
Lions Park		1,267,402		11,517
Chevron Property Remediation		54,383		45,617
Park Avenue Plaza		2,557,505		3,692,495
	$	11,634,143	$	6,010,906

7. Pension Plans

Substantially all City 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 Statement 27, *Accounting for Pensions by State and Local Government Employer* and No. 50 *Pension Disclosure, and 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 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 age 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent 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 percent of AFC. The monthly benefit is subject to a minimum of PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years 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 service times the COLA amount, which is increased 3 percent annually. Plan 1 members may also elect to receive an option al COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity 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 th e 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 percent of the AFC for each year of service reduced by 2 percent for each year the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance is granted a t age 66 based upon years of service times the COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 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 completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years service. The monthly benefit is 2 percent 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 percent 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 percent 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 percent to 200 percent of the accumulated contributions if the member's death occurs in the uniformed service to the United States while participating in the *Operation Enduring Freedom* or *Persian Gulf, Operation Iraqi Freedom*.

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 percent 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 years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before 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 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

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

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

PERS 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 serving the uniformed services, or a surviving spouse oar 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 he 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 received retirement benefits without actuarial reduction, if the member was not at 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.

Judicial Benefit Multiplier

Beginning January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to participate in the Judicial Benefit Multiplier Program (JBM) enacted in 2006. Justices and judges in PERS Plan 1 and 2 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of average compensation.

Members who chose to participate in JBM would: accrue service credit at the higher multiplier beginning with the date of their election, be subject to the benefit cap of 75 percent of AFC, pay higher contributions; stop contributing to the Judicial Retirement Account (JRA); and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; continue to participate in JRA, if applicable; never be a participant in the JBM Program; and continue to pay contributions at the regular PERS rate.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM Program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

Statewide 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 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	53,896
Total	**262,166**

<u>Funding Policy</u>

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 a 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 set Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

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

Members Not Participating in JBM:

	PERS Plan I	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 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.

Members Participating in JBM:

	PERS Plan I	PERS Plan 2	PERS Plan 3
Employer-State Agency*	7.81%	7.81%	7.81%**
Employer-Local Agency*	5.31%	5.31%	5.31%**
Employee-State Agency	9.76%	7.25%	7.50%**
Employee-Local Agency	12.26%	9.75%	7.50%**

*The employer rates include the employer administrative expense fee currently set at 0.16%.
**Plan 3 defined benefit portion only.
***Minimum rate.

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

	PERS Plan I	PERS Plan 2	PERS Plan 3
2010	$ 63,887	$ 596,771	$ 80,024
2009	$ 99,725	$ 778,836	$ 106,514
2008	$ 147,125	$ 829,085	$ 104,356

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description
LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement officers, firefighters and, as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of Final Average Salary
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 1 members may 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 member's allowance.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service or, at 53 with five years of service, with an allowance of 2 percent of the FAS per year of service. (FAS is based on the highest consecutive 60 months.) Plan 2 members who retire prior to the age 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A catastrophic disability benefit equal to 70 percent of FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to received a retirement allowance of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while servicing in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may purchase service credit on behalf of the deceased member.

LEOFF Plan 2 members may also purchase u p to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 372 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and beneficiaries receiving benefits	9,454
Terminated plan members entitled to but not yet receiving benefits	674
Active plan members vested	13,363
Active plan members non-vested	3,944
Total	**27,435**

Funding Policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by LEOFF Plan 2 Retirement Board. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this fund requirement could be returned to the employers by a change of statute.

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

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.24%**
Employee	0.00%	8.46%
State	N/A	3.38%

*The employer rates include the employer administrative expense fee currently set at 0.16%.
**The employer rate for ports and universities is 8.62%

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

	LEOFF Plan 1	LEOFF Plan 2
2010	$ 736	$ 547,704
2009	$ 738	$ 556,767
2008	$ 1,077	$ 532,691

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS was created by the 2004 legislature and became effective July 1, 2006.

PSERS Plan 2 membership includes full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and those full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

A *covered employer* is one that participates in PSERS. Covered employers include the following: state of Washington agencies: Department of Corrections, Department of Natural Resources, Parks and Recreation Commission, Gambling Commission, Washington State Patrol, and Liquor Control Board; Washington state counties; and Washington state cities except for Seattle, Tacoma and Spokane.

To be eligible for PSERS, an employee must work on a full-time basis and have one of the following:

- Completed a certified criminal justice training course with authority to arrest, conduct criminal investigation, enforce the criminal laws of Washington and carry a firearm as part of the job.
- Primary responsibility to ensure the custody and security of incarcerated or probationary individuals.
- Limited authority to function as a Washington peace officer, as defined in RCW 10.93.020.
- Primary responsibility to supervise eligible members who meet the above criteria.

PSERS defined benefit retirement payments are financed from a combination of investment earnings and employer and employee contribution. PSERS retirement benefit provisions are established in Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS Plan 2 members are vested after completion of five years of eligible service. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, with an allowance of 2 percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. Eligibility is based on the member being totally incapacitated for continued employment with a PSERS employer and leaving that employment as a result of the disability. The disability allowance is 2 percent of the average final compensation (AFC) for each year of service. AFC is based on the member's 60 consecutive highest creditable months of service. Service credit is the total years and months of service credit at the time the member separates from employment. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years).

PSERS Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in this active duty, thee member's surviving spouse or eligible child(ren) may purchase service credit on behalf of the deceased member.

PSERS members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a PSERS Plan 2 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 at normal retirement age at death. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 73 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2009:

Retirees and beneficiaries receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members vested	0
Active plan members non-vested	4,340
Total	**4,342**

Funding Policy

Each biennium, the state Pension Funding Council adopts PSERS Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.37 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:

	PSERS Plan 2
Employer*	7.85%
Employee	6.55%

*The employer rate includes an employer administrative expense fee of 0.16%.

Both the City and the employees made the required contribution. The City's required contributions for the year ended December 31, 2010 were as follows:

	PSERS Plan 2
2010	$ 9,111
2009	$ 9,627
2008	$ 9,868

8. Risk Management

The City's Risk Management Fund is used to finance its various exposures to loss. These exposures include theft, damage or destruction of assets, errors and omissions, property damage and injury of others. Smaller losses are self-insured while commercially available excess insurance is purchased for many larger losses. The City's General and Utility funds participate in financing the Risk Management Fund.

Following is a summary of the City's 2010 insurance coverage and risk retention:

Risk	Coverage Limit Per Occurrence	Self-Insured Retention	Insurer
Excess liability	$5,000,000	$250,000	Ironshore Specialty Insurance Company
Excess workers' compensation	Statutory	450,000	Safety National Casualty Corporation
Blanket property	56,000,000	100,000	Affiliated FM Insurance Company
Employee blanket bond	1,000,000	25,000	Great American Insurance Company
Pollution legal liability	1,000,000	100,000	Indian Harbor Insurance Company

The risk manager and claims administrators establish reserves for open claims on a case by case basis, after an assessment of each claim's settlement value. Actuarial techniques are used to estimate the long-term liability of the fund for both reported and unreported losses. As of December 31, 2010, the Risk Management Fund had cash reserves of $1,537,588. In September 2010 the City cash-funded a long term workers' compensation pension with the Department of Labor & Industries in the amount of $468,669. The Statement of Net Assets for the Risk Management fund includes the unspent portion of this amount in restricted assets. Long-term fund liabilities have been estimated at $1,069,164. Cash balances adequate to pay currently due claims have been available in the fund since its inception in 1986. In the last three years, no settlement has exceeded the limit of liability on applicable insurance policies. The expected annual level of incurred claims is approximately $554,000.

The following table shows the actual claims activity for 2009 and 2010:

	2009	2010
Claims liability - beginning of year	$ 1,618,821	$ 1,634,164
Claims incurred	306,531	588,997
Estimate change prior years	(24,206)	(72,882)
Payment on claims	(266,982)	(480,876)
Claims liability - end of year	$ 1,634,164	$ 1,669,403

9. Long-term Debt

A. Long Term Debt

The City issues general obligation and revenue bonds to finance the purchase or construction of capital assets. Bonded indebtedness has also been entered into to advance refund G.O. bonds. General obligation and revenue bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources.

General obligation bonds currently outstanding are as follows:

	Maturity Date	Interest Rate	Outstanding 12/31/2010
2002 Public Safety UTGO	12/01/27	2.5 / 5.25	$ 835,000
2003 Weekly Rate Demand Conference Ctr (Councilmanic)	12/01/28	VARIABLE	4,430,185
Government Center Real Estate Contract	06/01/34	1.6/5	5,602,500
2005 Sports & Public Works Complex Ref LTGO	12/01/12	3.69	520,000
2009 LTGO Refunding	12/31/28	3.0 / 4.5	5,268,000
2010 LTGO BABS	09/01/35	3.61	6,910,000
2010 UTGO Refunding	12/01/27	3.07	9,920,000
2010 LTGO (B) BABS	12/01/30	3.42	2,220,000
Total General Obligation Bonds and Notes			$ 35,705,685

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

Year Ending	Governmental Activities		Business Activities	
December 31	Principal	Interest	Principal	Interest
2011	$ 1,012,500	$ 1,720,434	$ 105,000	$ 158,040
2012	1,291,923	1,559,607	105,000	180,705
2013	1,163,371	1,061,393	105,000	177,030
2014	1,199,397	1,037,063	200,000	198,120
2015	1,226,476	1,010,492	220,000	190,120
2016-2020	6,718,540	4,492,116	1,425,000	899,640
2021-2025	7,947,542	3,246,578	1,812,000	543,420
2026-2030	6,710,436	1,659,660	1,296,000	118,350
2031-2035	3,167,500	504,982		
Total	$ 30,437,685	$ 16,292,325	$ 5,268,000	$ 2,465,425

Revenue bonds and loans currently outstanding are as follows:

	Maturity Date	Interest Rate		Outstanding 12/31/2010
1994 PWTF Loan - Warren Ave CSO	07/01/14	1.0	$	638,424
1995 PWTF Loan WWTP improvements	07/01/15	1.0		926,169
1996 PWTF Loan Callow Ave CSO I	07/01/16	1.0		908,672
1997 PWTF Loan Callow Ave CSO II	07/01/17	1.0		246,764
1998 PWTF Loan SR 303 water main	07/01/18	1.0		1,326,316
1999 PWTF Loan Tracyton water sys ph2	07/01/19	2.0		89,167
1999 PWTF Loan CSO design	07/01/20	1.0		439,133
2000 PWTF Loan Multi-Basin CSO	07/01/20	1.0		1,493,258
2000 PWTF Loan Callow CSO 3-5	07/01/20	1.0		2,234,296
2001 PWTF Loan East Bremerton CSO	07/01/21	0.5		1,741,667
2003 PWTF Loan Anderson Cove Basin 12	07/01/23	0.5		375,036
2003 PWTF Loan Naval Avenue	07/01/23	4.0		171,053
2004 PWTF Loan Brentwood storm drain red	07/01/24	4.0		138,099
2004 PWTF Loan Pacific Ave Basin CSO	07/01/24	0.5		979,683
2006 PWTF Loan WWTP upgrade	07/01/10	0.5		160,088
2006 PWTF Loan SW Bremerton sewer	07/01/11	0.5		148,958
2007 PWTF Anderson Cove sewer PS CW1	07/01/27	0.5		603,947
2007 PWTF WWTP upgrades	07/01/27	0.5		2,770,326
1994 CCWF Loan Callow Ave CSO design	05/01/17	0.0		242,258
1997 CCWF Loan Callow Ave CSO I	07/31/18	4.8		1,379,159
1998 DWSRF Loan corrosion control facility	10/01/18	4.0		440,134
2009 DWSRF UV Treatment Upgrade (ARRA)	10/1/17	0.0		2,811,809
2001 DWSRF Loan Tracyton WD upgrade	10/01/21	2.5		1,535,405
2002 DWSRF Loan Eastside flow & pressure	10/1/22	2.5		732,242
2002 DWSRF Loan Casad Dam seismic upgrade	10/1/22	2.5		471,310
2003 DWSRF Loan Casad Dam intake tower	10/01/23	1.5		57,211
2003 DWSRF Loan Pump Station 4 upgrade	10/01/23	1.5		748,946
2004 DWSRF Loan Anderson Creek	10/01/24	1.5		75,345
2004 DWSRF Loan seismic upgrades	10/01/24	1.5		396,176
1999 WPCRF Loan CSO plan update	12/31/22	1.5		163,450
1999 WPCRF Loan Anderson Cove CSO	02/27/21	1.5		551,340
1999 WPCRF Loan Callow Ave CSO final	12/31/22	1.5		378,007
2002 WPCRF Loan Anderson CV CSO red	1/23/22	1.5		399,817
2002 WPCRF Loan Cherry/Trenton CSO red	10/15/24	1.5		766,034
2002 WPCRF Loan Trenton pump station	10/15/24	1.5		765,540
2002 WPCRF Loan Tracyton Beach CSO	12/31/25	1.5		460,139
2002 WPCRF Loan Anderson Cove Basin 12	12/31/26	1.5		212,836
2003 WPCRF Pacific Ave CSO red-sep	6/30/24	1.5		232,970
2003 WPCRF Loan Pacific Ave CSO reduction	12/31/27	1.5		929,266
2004 WPCRF Loan Charry/Trenton CSO red-1	12/31/26	1.5		926,517
2007 WPCRF WWTO upgrade	1/1/29	2.6		599,189

2009 WPCRF Gorst Sewerage Constuction	12/31/30	1.4	583,464
2009 WPCRF Gorst Septic System Design	12/31/30	2.9	110,000
2009 WPCRF Gorst Sewerage Design	12/31/30	1.4	568,350
2007 W/S Refunding Revenue bond	12/01/21	4.3	4,260,000
2003 Weekly Rate Demand Conference Ctr	12/1/28	Variable	5,244,815
Total revenue bonds and loans			$ 41,432,785

Revenue bond and loan debt service requirements to maturity are as follows:

Year Ending	Governmental Activities		Business Activities	
December 31	Principal	Interest	Principal	Interest
2011	$ -	$ 28,322	$ 3,085,805	$ 608,227
2012	200,577	27,239	3,007,615	552,853
2013	214,129	26,083	3,599,590	498,988
2014	233,103	24,824	3,624,679	429,904
2015	238,524	23,536	3,495,659	388,097
2016-2020	1,306,460	96,910	13,385,738	1,148,840
2021-2025	1,512,458	58,386	4,798,118	246,320
2026-2030	1,539,564	11,212	1,190,767	49,927
Total	$ 5,244,815	$ 296,512	$ 36,187,971	$ 3,923,156

On February 20, 2003, the City issued $10,865,000 principal amount of Weekly Rate Demand Revenue Bonds, 2003, (Kitsap Regional Conference Center Parking Garage). Those bonds are secured by a letter of credit from Bank of America (the "Bank") that initially expired on February 10, 2006, and was extended. The current letter of credit expires on August 10, 2011. The City agreed to repay the Bank for draws on the letter of credit that are not paid from remarketing the bonds as a general obligation of the City, with a cap on such reimbursement obligation of $4,975,139. The City is currently reviewing its options regarding these bonds, which may include extending the Bank's letter of credit, obtaining a new letter of credit, or issuing fixed rate bonds to refund the bonds. If fixed rate bonds are issued, they could be a combination of revenue bonds and limited tax general obligation bonds or solely limited tax general obligation bonds.

The interest rate on the 2003 Weekly Rate Demand bonds is determined weekly by the Remarketing Agent. The rate determined is the minimum rate which in its judgment, on the basis of prevailing financial market conditions, would permit the sale of the 2003 bonds at par on the determination date, such rate to be the weekly rate for the next rate period. If the remarketing agent fails to make such determination on any determination date, the weekly rate for the next succeeding rate period shall be the rate in effect for the immediately preceding rate period. The effective rate at December 31, 2010 was .54%.

In 2009 the City was awarded a $6,060,000 Drinking Water Assistance loan, funded through the American Recovery and Reinvestment Act of 2009 for the design and construction of a UV Treatment and Chlorine disinfection Facility. Terms of the loan provide that at project completion, the lesser of the loan amount less the loan fee or the actual eligible costs less the loan fee will be forgiven. The outstanding balance on this loan at 12/31/10 was $2,811,809. The project is scheduled for completion in 2011.

On May 28, 2010, the city issued $6,910,000 in LTGO Taxable Build America Bonds to pay a portion of the costs of (a) constructing two subsurface and two above-grade parking areas for approximately 250 parking stalls to provide multi-use parking for Puget Sound Naval Shipyard daytime workers, downtown Harborside retail, businesses and visitors to Memorial Plaza and Harborside Fountain Park (the "Revitalization Area Project"), (b) renovating Lions Park and (c) purchasing and renovating a building to be used as a municipal courthouse. The bonds bear interest rates from 3.203 to 6.129 percent and will be redeemed over the next twenty five years. The City expects to pay a portion of the costs of the Revitalization Area Project from money received under the State's Local Revitalization Financing (LRF) program. Under RCW 82.14.505 and.510, a sales and use tax may be imposed by qualifying jurisdictions for certain projects. The City began collecting an LRF tax on July 1, 2010 to pay for improvements in the City's designated revitalization area.

The City expects to receive an amount of not more than $330,000 annually from the LRF tax to pay debt service on the portion of the Bonds issued for the Revitalization Area Project. The City has pledged the revenue from this LRF tax to the repayment of the portion of the Bonds funding the Revitalization Area Project.

On November 2, 2010 the City issued an additional $2,220,000 in LTGO Taxable Build America Bonds for the above project. Proceeds are to be used as match for a $2.6M federal award from the US Economic Development Administration for additional improvements at the Park Plaza facility.

In proprietary funds, 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 city has $433,778 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain $1,268,703 in sinking funds and reserves as required by bond indentures.

B. Refunded Debt

The city issued $9,920,000 of general obligation refunding bonds during 2010 to provide resources to purchase U.S. Government and State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on $9,315,000 of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. This advance refunding was undertaken to reduce future debt service obligations through a reduction of interest costs. The refunding did not extend the repayment period, reduced annual debt service over the life of the refunded bonds by approximately $46,000 and resulted in an economic gain of $633,838.

In prior years, the city defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for defeased bonds are not included in the city's financial statements. At December 31, 2010, $11,500,000 of bonds outstanding are consider defeased.

C. Changes in Long Term Liabilities

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

	Beginning Balance 1/1/2010	Additions	Reductions	Ending Balance 12/31/2010	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds	$ 21,474,185	$ 19,050,000	$ 10,086,500	$ 30,437,685	$ 1,012,500
Revenue bonds	5,244,815	-	-	5,244,815	-
Add unamortized premiums	112,124	357,267	103,807	365,584	
Less deferred refunding expense	(30,301)	(1,076,331)	(20,069)	(1,086,563)	
Total bonds payable:	26,800,823	18,330,936	10,170,238	34,961,521	1,012,500
Claims and judgments	1,634,164	588,997	553,758	1,669,403	481,880
Compensated absences	1,564,592	-	65,323	1,499,269	1,349,342
Governmental activity long-term liabilities:	$ 29,999,579	$ 18,919,933	$ 10,789,319	$ 38,130,193	$ 2,843,722

	Beginning Balance 1/1/2010	Additions	Reductions	Ending Balance 12/31/2010	Due Within One Year
Business-type Activities:					
Bonds payable:					
General obligation bonds	$ 5,373,000	$ -	$ 105,000	$ 5,268,000	$ 105,000
Revenue bonds	4,590,000	-	330,000	4,260,000	335,000
Less deferred refunding expense	(280,559)	-	(25,506)	(255,053)	
Total bonds payable:	9,682,441	-	409,494	9,272,947	440,000
Intergovernmental loans	28,543,337	6,149,674	2,765,041	31,927,970	2,750,802
Note payable	111,233	-	-	111,233	-
Compensated Absences	545,402	-	128,924	416,478	374,830
Business-type activity long-term liabilities:	$ 38,882,413	$ 6,149,674	$ 3,303,459	$ 41,728,628	$ 3,565,632

The Risk Management, Equipment Maintenance and Information Technology internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end $1,669,403 of Risk Management claims and judgments and $53,294 of compensated absences are included in the above amounts.

10. Contingencies, Litigation and Claims

In March 1993, the City entered into an Order on Consent with the Department of Ecology for reduction of combined sewer overflows (CSOs) including separation of combined sanitary and storm sewers. All required improvements were completed at the end of 2009 at a total cost of $50.3 million. On February 17, 2011 the Department of Ecology issued a Notice of Compliance with the Order on Consent terminating the Order on Consent.

In 1993 the City also entered into a Consent Decree with the Puget Soundkeeper's Alliance (PSA), a citizens' group authorized to commence an action under the Federal Clean Water Act. Since entering the Consent Decree, PSA and the City were involved in mediation, which has resulted in the acceleration of several CSO projects, and a reordering of the schedule for construction of the remaining projects. PSA has acknowledged that the City has fulfilled its obligations under the consent decree and waived any claims it brought in the legal action. On May 11, 2011 the United States District Court entered an order terminating the Consent Decree and dismissing the case with prejudice.

The Kitsap County Housing Authority issued Variable Rate Demand Revenue Bonds, 2005 in the principal amount of $22,200,000, which were secured by a letter of credit. The proceeds of those bonds were used to develop the Harborside Condominiums in the City. The County agreed to loan the Housing Authority up to $22,200,000 plus interest in the event the Housing Authority does not have sufficient funds to reimburse the bank which provided the letter of credit ("LOC") securing those bonds for draws on the LOC. The City entered into an agreement with the Housing Authority and the County pursuant to which the City agreed to loan the Housing Authority up to $2,000,000 in the event the bank letter of credit was drawn on, the County had lent $22,200,000 to the Housing Authority to reimburse the bank for draw on the letter of credit and there were not funds available to pay a portion of the bank reimbursement. In 2009, the Housing Authority drew the full amount of the bank letter of credit to repay the bonds, and the Housing Authority and the County entered into an agreement under which the County borrowed money to loan to the Housing Authority to reimburse the bank. The County and the Housing Authority demanded that the City loan $2,000,000 to the Housing Authority under its agreement. The matter was resolved in May 2011 with the city paying the Housing Authority and Kitsap County $1,150,000.

The City participates in a number of federal and state assisted programs. These grants are subject to audit by the grantor or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Management believes that such disallowances, if any, will be immaterial.

11. Restricted Net Assets

The government-wide statement of net assets reports $5,056,142 of restricted net assets, all of which is restricted by enabling legislation and external contractual commitments.

12. Interfund Balances and Transfers

A. Interfund Balances

Interfund balances at December 31, 2010 were as follows:

	Due From								
	General Fund	Other Govt	Water	Waste-Water	Golf	Stormwater	Internal Service	Fiduciary	Total
General Fund	$ -	$ 92,007	$ 109,814	$ 211,708	$ -	$ 40,122	$ -	$ 1,974	$ 455,625
Other governmental funds	-	24,664	-	5,459	5,169	-	-	-	35,292
Water	230,188	4,468	-	-	-	-	-	-	234,656
Wastewater	80,375	-	6,386	-	-	-	-	-	86,761
Stormwater	14,169	-	-	-	-	-	-	-	14,169
Internal Service	6,387	145,330	1,895	1,398	-	703	15,258	-	170,971
Total	$ 331,119	$ 266,469	$ 118,095	$ 218,565	$ 5,169	$ 40,825	$ 15,258	$ 1,974	$ 997,474

Interfund balances at year end were a result of outstanding interfund loans as well as amounts due for services provided between funds. Amounts due for services will be liquidated early in 2011. Interfund loans are approved by City Council Resolution and include a repayment date. The following schedule is a summary of loans outstanding at year end including the year of final payment.

			Loaned To		
Loaned From	**Purpose**	**Yr of final Payment**	***General Fund***	***Other Govt***	***Total***
Water	Park Land	2025	$ 197,858	$ -	$ 197,858
Internal service	Park Impr	2020	-	94,603	94,603
Total			$ 197,858	$ 94,603	$ 292,461

B. Interfund Transfers

Interfund transfers at December 31, 2010 were as follows:

Transfer To	Transfer From						
	General Fund	**Other Govt**	Water	Waste-Water	Stormwater	Internal Service	Total
General Fund	$ -	$ 613,200	$ 1,267,675	$ 2,015,319	$ 327,771	$ -	$ 4,223,965
Other governmental funds	700,000	707,014	-	-	-	-	1,407,014
Wastewater	-	-	-	-	100,000	-	100,000
Internal Service	-	-	-	-	-	437,029	437,029
Total	$ 700,000	$ 1,320,214	$ 1,267,675	$ 2,015,319	$ 427,771	$ 437,029	$ 6,168,008

Interfund transfers are the flow of assets without equivalent flows of assets in return and without a requirement for repayment. Generally funds flow between funds with tax or other resources to funds for payment of debt service, capital construction or in support of operations. This category also includes payment in lieu of taxes levied by the General fund on city utility funds that are not payments for, and are not reasonably equivalent in value to, services provided.

There were several significant transfers during 2010. The Contingency Reserve fund transferred $250,000 of proceeds received from the sale of City property to the General fund to support ongoing operations.

The Harborside Plaza fund transferred $277,014 to the Arterial Street fund to contribute to funding of street improvements in the Harborside District.

The Equipment Rental Operations funds transferred $437,029 to the Equipment Rental Reserve fund to reimburse for losses incurred by the maintenance operation for 2004 through 2008, prior to the creation of a separate internal service fund for that function.

The rate at which the payment in lieu of tax (PILOT) on city owned utilities is levied was increased by 6% in 2010 to 15.5% resulting in an increase of $188,388 for the year.

13. Receivable and Payable Balances

A. Receivables

External Receivables at December 31, 2010 were as follows:

	Accounts	Taxes	Special Assessments	Notes Contracts	Other	Total
Governmental Activities:						
General Fund	$ 1,278,922	$ 2,514,666	$ -	$ 41,482	$ -	$ 3,835,070
Non-major and other funds	398,135	393,353	-	58,650	414	850,552
Reconciliation of balances in fund financial statements to government-wide financial statements	-	-	-	854,826	5,325	860,151
Total governmental activities	$ 1,677,057	$ 2,908,019	$ -	$ 954,958	$ 5,739	$ 5,545,773
Business-Type Activities:						
Water	$ 1,455,233	-	-	51,249	$ 237	$ 1,506,719
Golf	-	-	-	2,850	500	3,350
Wastewater	2,475,412	3,790	-	76	-	2,479,278
Stormwater	430,805	-	-	6	-	430,811
Reconciliation of balances in fund financial statements to government-wide financial statements			1,051			1,051
Total business-type activities	$ 4,361,450	$ 3,790	$ 1,051	$ 54,181	$ 737	$ 4,421,209

B. Payables

Accounts/contracts Payable at December 31, 2010 were as follows:

	Vendors	Retainage	Total
Governmental Activities:			
General Fund	$ 470,281	$ -	$ 470,281
Non-major and other funds	1,357,216	55,729	1,412,945
Fiduciary funds	58,143	-	58,143
Reconciliation of balances in fund financial statements to government-wide financial statements	67,436		67,436
Total governmental activities	$ 1,953,076	$ 55,729	$ 2,008,805

Business-Type Activities:						
Water	$	724,068	$	-	$	724,068
Golf		28,361		-		28,361
Wastewater		345,406		-		345,406
Stormwater		46,433		-		46,433
Reconciliation of balances in fund financial statements to government-wide financial statements		-		-		-
Total business-type activities	$	1,144,268	$	-	$	1,144,268

14. Post Employment Benefits other than Pension

Statement No. 45 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for reporting of post employment benefits other than pensions for financial statement for periods beginning after December 15, 2007. For the purposes of implementing the requirements of this statement, the year ending 12/31/08 was the transition year.

Plan Description
As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a defined benefit healthcare plan administered by the City. The members necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, other pension plan, or any other similar source are covered. Most medical coverage for eligible retirees is provided by one of the City's employee medical insurance programs. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions. Finance reporting for the LEOFF retiree healthcare plan is included in the City's Comprehensive Annual Financial Report.

Funding Policy
Funding for LEOFF retiree healthcare costs is provided entirely by the City as required by RCW. The City's funding policy is based upon pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation
The City's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of nineteen years as of September 1, 2006. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB. The net OPEB obligation of ($357,107) is included as a noncurrent asset on the Statement of Net Assets.

	Fiscal Year Ending 12/31/10
Determination of Annual Required Contribution:	
Amortization of UAAL*	1,352,725
Interest Adjustment to year End	13,460
Annual Required Contribution (ARC)	$ 1,366,185

Determination of NET OPEB Obligation:		
Annual Required Contribution	$	1,366,185
Annual OPEB Cost	$	1,366,185
Contributions		(1,442,848)
Change in Net OPEB Obligations	$	(76,663)
Net OPEB Obligations - beginning of year	$	(280,444)
Net OPEB Obligations - end of year	$	(357,107)

* Unfunded Actuarial Accrued Liability (UAAL)

The City's OPEB cost, the percentage OPEB cost contributed to the plan and the net OPEB Assets for 2010 and the proceeding two years, was as follows:

Fiscal year Ended	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	Net OPEB Obligation
12/31/2008	$ 1,142,500	117.50%	$ (200,155)
12/31/2009	$ 1,366,185	105.88%	$ (280,444)
12/31/2010	$ 1,366,185	105.61%	$ (357,107)

Funded Status and Funding Progress

As of October 1, 2008, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was $21,632,822 and the actuarial value of the assets was $0 resulting in a UAAL of $21,632,822.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statement, presents multiyear trend information that show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the October 1, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions used included a 3.0% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance payment of benefits. A medical inflation rate of 10% graded to 5% over ten years was used along with a long term care inflation rate of 3.0%.

The UAAL is being amortized on a closed basis at the assumed discount rate. The remaining amortization period at January 1, 2010 was 17.75 years.

15. Segment Information

The City operates a utility system providing water, wastewater and stormwater management services to the citizens of Bremerton and a portion of Kitsap County outside city boundaries. Operations are financed by user fees imposed on customers of each utility. The City has issued revenue bonds to finance improvements to its sewer system. While the operations of each utility are accounted for in separate funds, the repayment of the revenue bonds relies on the combined revenues of all three utilities. In addition, the City operates a public golf course whose operations are funded entirely through user fees. With the exception of the combined utility, there are no revenue bonds issued or other revenue-backed debt outstanding for which full, detailed segment data is not provided in the proprietary fund financial statements.

The key financial data for the year ended December 31, 2010 for the combined utility operations are as follows:

Condensed Statement of Net Assets	
Assets	
Current assets	$ 18,488,565
Restricted assets	1,658,533
Capital assets	157,512,874
Other assets	1,263,727
Total assets	178,923,699
Liabilities	
Current liabilities	5,516,768
Payable from restricted assets	30,238
Long-term liabilities	33,255,044
Total liabilities	38,802,050
Net Assets	
Restrict for debt service	1,305,903
Unrestricted	17,602,070
Invested in capital assets net of related debt	121,213,676
Total net assets	$ 140,121,649

Condensed Statement of Revenues, Expenses and Changes in Net Assets	
Total operating revenues	$ 23,857,963
Operating Expenditures:	
Operations & maintenance	14,100,067
Depreciation/amortization/depletion	4,408,458
Total operating expenses	18,508,525
Operating income(loss)	5,349,438
Non-Operating Revenues/Expenses	
Interest revenue/expense (net)	(401,048)
Other (net)	304,339
Total non-operating revenues/expenses	(96,709)
Capital contributions	7,416,202
Transfers	(3,610,765)
Change in net assets	9,058,166
Beginning net assets	131,976,130
Special Items	(912,647)
Ending net assets	$ 140,121,649

Condensed Statement of Cash Flows	
Net cash provided By:	
(a) Operating activities	$ 9,480,868
(b) Noncapital financing activities	(3,310,348)
(c) Capital and related financing activities	(2,483,190)
(d) Investing activities	513,735
Beginning cash and investment balance	8,845,498
Ending cash and investment balance	$ 13,046,563

16. Other Disclosures

A. Prior Year Correction

Adjustments and accounting changes related to prior periods on fund and government-wide statements were the result of corrections that were considered to be material in value.

	Fund Statements	Government Wide	
General Fund	$ 103,197	$ 336,928	Accounting change to recognize Court and Photo Enforcement fines collectable.
Parking Fund	20,231	329,430	Accounting change to recognize Parking fines collectable.
		(1,376,423)	Expenditures from prior years determined not to be capital in nature.
Total Governmental Funds	**123,428**		
Golf Course	183,678	183,678	Overstatement of depreciation on capital assets.
Total Proprietary Funds	**$ 183,678**		
Government-wide adjustments		**$ (526,387)**	

B. Special Items

A failure to secure necessary permits for the Bremerton Boardwalk project led to the abandonment of the project in 2010. The inability to secure permits stemmed from opposition by other governmental entities involved in the permitting process. The fund balance of Governmental activities decreased $1.4 million and business activities and proprietary funds decreased $.91 million as a result of this action.

Required Supplementary Information
LEOFF 1 Retiree Medical Benefits
Schedule of Funding Progress

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability Unit Cost	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2008	$ -	$ 16,191,238	$ 16,191,238	0.0%	$ 673,125	2405.38%
12/31/2009	$ -	$ 21,632,822	$ 21,632,822	0.0%	$ 461,567	4686.82%

CITY OF BREMERTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2010

1	2	3	4	5			6
				Expenditures			
Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	From Pass-Through Awards	From Direct Awards	Total	Foot-note Ref.
National Oceanic & Atmosphere Administration	**ARRA**-Marine Debris Program	11.463	NA08NMF4630477		110,000	110,000	2,6
U.S Dept of HUD	**ARRA**-Community Development Block Grant 2008	14.218	B-08-MC-53-0011		49,393	49,393	5c,6
U.S Dept of HUD	Community Development Block Grant	14.218	B-09-MC-53-0011		145,386		
			B-10-MC-53-0011		307,971		2,5b
			Program Income		54,798		3
			Subtotal		508,155	508,155	
U.S Dept of HUD	Shelter Plus Care	14.238	WA0098C010801-Program		28,506		
			WA0099C0T010801-Sponsor		93,814		
			WA0100C07010801-Tenant		37,736		
			Subtotal		160,057	160,057	2, 5d
U.S. Dept. of HUD/Pass through from Kitsap County	HOME Investment Partnerships Program	14.239	KC29909	14,409			
			KC23410	283,587			2
			Program Income	36,211			3
			Subtotal	334,207		334,207	5e
U.S. Dept of HUD	Community Development Block Grant	14.246	B-04-SP-WA-0863		1,949	1,949	2
Fish and Wildlife Service/Pass-Thru National Fish & Wildlife Foundation	Fish and Wildlife Management Assistance	15.608	2008-0048-002	35,920		35,920	2
U.S. Dept of the Interior/Pass through Recreation and Conservation Office	Land and Water Conservation Fund	15.916	08-1257D	405,979		405,979	2
U.S. Dept of Justice	Bulletproof Vest Partnership	16.607	99002098		6,054	6,054	2
U.S. Dept of Justice	Public Safety Partnership & Community Policing (COPS)	16.710	2007-CK-WX-0057		1,041,019	1,041,019	5a
U.S. Dept of Justice	**ARRA-**Public Safety Partnership & Community Policing (COPS)	16.710	2009-RK-WX-0887		230,921	230,921	2,6
U.S. Dept of Justice	Edward Byrne Memorial Justice Assistance Grant	16.738	2008-DJ-BX-0158		1,929		
			2009-DJ-BX-0162		59,540		
			Subtotal		61,469	61,469	
U.S. Dept of Justice	**ARRA**-BJA FY 2009 Recovery Act Edward Byrne memorial Justice Assistance Grant	16.804	2009-SB-B9-1743		34,445	34,445	6

CITY OF BREMERTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2010

1	2	3	4	5			6
				Expenditures			
Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	From Pass-Through Awards	From Direct Awards	Total	Foot-note Ref.
U.S. Dept. of Transportation/Pass-through from WA State DOT	**ARRA**-Highway Planning and Construction	20.205	HSIP-000S(242)	2,698		2,698	6
U.S. Dept. of Transportation/Pass-through from WA State DOT	Highway Planning and Construction	20.205	ER-0801(094)	232,557			
U.S. Dept. of Transportation/Pass-through from WA State DOT	Highway Planning and Construction	20.205	STPUS-0303(010)	755,675			
U.S. Dept. of Transportation/Pass-through from WA State DOT	Highway Planning and Construction	20.205	STPUS-6585(001)	24,013			
			Subtotal	1,012,245		1,012,245	2
U.S. Dept of Transportation (NHTSA)/Pass-through WA Traffic Safety Commission	State and Community Highway Safety	20.600	N/A	5,845		5,845	
U.S. Dept of Transportation (NHTSA)/Pass-through WA Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive	20.601	N/A	6,696		6,696	2
Environmental Protection Agency, Office of Air and Radiation	Climate Showcase Communities Grant	66.041	AF-83452701-0		124,125	124,125	2
Environmental Protection Agency	Puget Sound Watershed Management Assistance	66.120	PO-00J08701-0		22,965	22,965	2
Environmental Protection Agency/Pass-through Dept. of Ecology	**ARRA**-Capitalization Grants for Clean Water State Revolving Funds	66.458	L10S0019	4,707,863			
			L1000019	595,477			
			L10S0020	1,303,799			
			Subtotal	6,607,139		6,607,139	2,4,6
Environmental Protection Agency/Pass-through WA State Dept of Commerce	ARRA Capitalization Grants for Drinking Water State Revolving Funds	66.468	DR09-952-075	3,854,546		3,854,546	2,4
Department of Energy/Pass-through Dept of Commerce	**ARRA**-Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	F10-52110-018	3,419			
			F10-52110-058	18,000			
			Subtotal	21,419		21,419	2,6
U.S. Dept of Homeland Security/Pass-through from WA Military Dept	Disaster Grants - Public Assistance	97.036	1734-DR-WA	169,724		169,724	2
Total Federal Awards Expended				$12,456,417	$2,350,553	$14,806,970	

The accompanying notes to the schedule of expenditures of federal awards are an integral part of this schedule.

CITY OF BREMERTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2010

NOTE 1- BASIS OF ACCOUNTING

The Schedule of Financial Assistance is prepared on the same basis of accounting as the city's financial statements. The city uses the modified accrual basis of accounting for governmental funds and the full accrual for proprietary fund types.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the city's portion, are more than shown.

NOTE 3 - PROGRAM INCOME

The city has a revolving loan program for low income housing. Under this federal grant, repayments to the city are considered program revenue (Income), and loans of such funds to eligible recipients are considered expenditures.

NOTE 4 - FEDERAL LOANS

The amount listed for each loan includes the proceeds received during the year. Loans are also reported on the city's Schedule of Long-Term Liabilities.

NOTE 5 - AMOUNTS AWARDED TO SUBRECIPIENTS

(a) Included in the total amount expended for this program is $1,041,018.56 that was passed through to a subrecipient that administered its own project.

(b) Included in the total amount expended for this program is $425,541.58 that was passed through to subrecipients that administered their own projects.

(c) Included in the total amount expended for this program is $49,393.16 that was passed through to a subrecipient that administered its own project.

(d) Included in the total amount expended for this program is $156,421.35 that was passed through to a subrecipient that administered its own project.

(e) Included in the total amount expended for this program is $296,548.88 that was passed through to a subrecipient that administered its own project.

NOTE 6 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009

Expenditures for this program were funded by ARRA.

ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

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

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

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Corrective Action Plan for Findings Reported Under OMB Circular A-133

City of Bremerton
Kitsap County
January 1, 2010 through December 31, 2010

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the City of Bremerton. The State Auditor's Office has reviewed the information as presented by the City.

Finding ref number: 1	**Finding caption:** The City did not establish adequate internal controls over program income requirements for their Community Development Block Grant.

Name, address, and telephone of auditee contact person:
Cathy Johnson, 360-473-5296
345 6th Street, Suite 600
Bremerton WA 98337

Corrective action the auditee plans to take in response to the finding:
(If the auditee does not concur with the finding, the auditee must list the reasons for non-concurrence).

CDBG staff will take immediate action to reduce the existing CDBG bank account balance by using CDBG program income to reimburse sub-grantee agencies for vouchers submitted. Per federal regulation, we cannot allocate additional program income to Administration or Public Services projects during 2011, however, we may use unlimited program income for capital projects. Vouchers for open CDBG capital projects will be paid with program income until the balance is adequately reduced. We estimate that the balance will be paid down by year end 2011.

The City's CDBG Administrator is working with Kitsap County Block Grant to develop best practices related to Program Income expenditure. The CDBG Program Administrator is required to set up each CDBG Activity's funding—including how much will come from each Entitlement and Program Income—in the HUD IDIS system before knowing which CDBG activity will submit a reimbursement request first or how much Program Income will become available. It is anticipated that at the beginning of the program year, the City's CDBG Program Administrator will fund three activities only with all of the Program Income estimated for the year: one Public Service (15% of last year's PI allowed), one Administration (20% of current year estimate allowed), and one Capital project (remainder of PI receipted for the year). When the first activity reimbursement is submitted, PI will be reallocated to that project to cover the amount of the draw, and the activity from which PI funding was depleted will be replenished with the Entitlement funds. This will continue until all program income is spent down. Furthermore, the CDBG Programs Administrator will check the balance of the CDBG bank account monthly to ensure that an excess balance does not develop, and will receipt additional PI funding to IDIS if necessary.

The City's Block Grant Department will continue to seek local HUD training opportunities on CDBG Administration and best practices for handling Program Income. *The Block Grant Administrator is working with the City's finance department to develop new Program Income receipt / expenditure tracking tools to support our new procedures.*
Anticipated date to complete the corrective action: December 31, 2011