



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

# **Financial Statements and Federal Single Audit Report**

## **City of Bremerton**

**For the period January 1, 2018 through December 31, 2018**

**Published September 26, 2019**

**Report No. 1024697**





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

September 26, 2019

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,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### City of Bremerton January 1, 2018 through December 31, 2018

#### SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Bremerton are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

##### Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 no deficiencies that we consider to be material weaknesses.

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

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

### **Identification of Major Federal Programs**

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City qualified as a low-risk auditee under the Uniform Guidance.

### **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

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

**City of Bremerton  
January 1, 2018 through December 31, 2018**

Mayor and City Council  
City of Bremerton  
Bremerton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bremerton, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 23, 2019. As discussed in Note 1 to the financial statements, during the year ended December 31, 2018, the City implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

September 23, 2019



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**City of Bremerton  
January 1, 2018 through December 31, 2018**

Mayor and City Council  
City of Bremerton  
Bremerton, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of the City of Bremerton, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2018. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

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

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

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

September 23, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Bremerton January 1, 2018 through December 31, 2018

Mayor and City Council  
City of Bremerton  
Bremerton, Washington

### REPORT ON THE FINANCIAL STATEMENTS

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, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 16.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

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, 2018, 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 accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 1 to the financial statements, in 2018, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of

management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2019 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 internal control over financial reporting or on compliance. That report is an

integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

September 23, 2019

## **FINANCIAL SECTION**

### **City of Bremerton January 1, 2018 through December 31, 2018**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2018

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2018

Statement of Activities – 2018

Governmental Funds Balance Sheet – 2018

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2018

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities – 2018

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – General Fund – 2018

Statement of Net Position – Proprietary Funds – 2018

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2018

Statement of Cash Flows – Proprietary Funds – 2018

Statement of Fiduciary Net Position – Fiduciary Funds – 2018

Notes to Financial Statements – 2018

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3, PSERS, LEOFF 1, LEOFF 2 – 2018

Schedule of Employer Contributions – PERS 1, PERS 2/3, PSERS, LEOFF 2 – 2018

Schedule of Changes in Total OPEB Liability and Related Ratios – LEOFF 1 – 2018

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2018

Notes to the Schedule of Expenditures of Federal Awards – 2018



**City of Bremerton  
Management's Discussion and Analysis  
December 31, 2018**

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, 2018. 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 2018, the assets and deferred outflows of the City exceeded its liabilities and deferred inflows by \$274 million. As a result of GASB 75 (Other Post Employment Benefit reporting), the unrestricted fund balance on the Government Wide statements is negative to offset the restricted fund balance totals. The net investment in capital assets accounts for 91% of this amount (\$248 million). Net position restricted primarily for construction projects, debt service, public safety and Community Development Block Grant (CDBG) programs, tourism promotion, worker's compensation liability and public safety account for another 3.0 percent of this amount (\$8.6 million). The remaining net assets of \$17 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net position decreased by \$13 million 5% during the fiscal year. The governmental net position decreased by \$23.3 million (21%) from the amount reported in 2017. Business-type net position increased by \$9.8 million (6%). Governmental Fund balance (omitting the GASB 75 accounting standard) increased in performance by \$6.6 million.
- As of December 31, 2018, the City's governmental funds reported a combined fund balance of \$22.7 million, an increase of 9% from the prior year end. The fund balance of the General Fund increased by \$2.0 million while the remaining non-major governmental funds had a fund balance decrease of \$51,058. \$6.5 million of the combined ending governmental fund balances is restricted for specific purposes by external parties or enabling legislation or otherwise not available for expenditure. Of the remaining \$16.2 million fund balance, \$5.3 million has been committed or assigned for specific purposes while \$10.8 million is unassigned and available to the City for future appropriation. The remaining fund balance of \$30,279 is non-spendable inventories.
- At the end of 2018, the unassigned fund balance of the General Fund was \$10.8 million or approximately 29 percent of total General Fund expenditures of \$37.9 million. The General Fund's unassigned fund balance increased by \$1.8 million from the prior year's amount of \$9.1 million.
- The City's total outstanding debt decreased by \$5.4 million 9% during the current fiscal year to \$57.4 million. General obligation debt decreased by \$2.1 million and revenue debt decreased by \$3.3 million. The city did not issue any new debt in 2018.
- The City's net investment in Capital Assets increased \$4.6 million in 2018. Total Capital assets from governmental activities decreased \$1.5 million or (1%). Total Capital assets from business type activities increased \$5 million or 3%. The Governmental decreases are primarily due assets reclassified to utility infrastructure related to the Washington Avenue Connector and Lower Wheaton Way projects that have closed.

**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, legislative and human resources), community development, public safety (police and fire), utilities and environment, transportation, economic environment, and culture and recreation. The City's business-type activities are limited to the City's municipal golf course and water, wastewater and stormwater utility activities. 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 position* presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, highlighting the difference between the two as net position. This statement is similar to the balance sheet of a private sector business. Over time, increases or decreases in net position 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 position 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-six (26) individual governmental funds in 2018. 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 for major governmental funds is presented with the basic financial statements. Budgetary comparison statements for other governmental funds are included with the combining statements.

***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 maintains four different types of enterprise funds. Enterprise funds are presented as business-type activities in the government-wide statements. The enterprise fund statements provide separate information and more detail than is reported in the government-wide statements for the City's municipal golf course, water, 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, self-insured insurance programs and claims, unemployment insurance obligations, termination benefits 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 position

The statement of net position can serve as a useful indicator of the City's financial position. The City's net position at December 31, 2018 totaled \$274 million. Following is a condensed version of the government-wide statement of net position. The City presents its financial statements in compliance with 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 Position

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2018	2017	Difference	2018	2017	Difference	2018	2017	Difference
Current Assets	\$ 27,198	\$ 24,773	\$ 2,425	\$ 35,493	\$ 34,647	\$ 846	\$ 62,691	\$ 59,420	\$ 3,271
Restricted Assets	6,669	6,810	(141)	1,892	1,711	181	8,561	8,521	40
Capital Assets	118,589	120,094	(1,505)	188,578	183,564	5,014	307,167	303,658	3,509
Other Noncurrent Assets	10,769	7,715	3,054	-	199	(199)	10,769	7,914	2,855
Total assets	163,225	159,392	3,833	225,963	220,121	5,842	389,188	379,513	9,675
Deferred outflows of resources	3,089	2,282	807	712	654	58	3,801	2,936	865
Current Liabilities	3,739	3,703	36	2,905	2,011	894	6,644	5,714	930
Payable from Restricted Assets	-	-	-	-	-	-	-	-	-
Noncurrent Liabilities	71,736	46,015	25,721	34,839	40,074	(5,235)	106,575	86,089	20,486
Total liabilities	75,475	49,718	25,757	37,744	42,085	(4,341)	113,219	91,803	21,416
Deferred inflows of resources	4,773	2,578	2,195	1,140	637	503	5,913	3,215	2,698
Net position									
Net Investment in Capital Assets	90,726	92,734	(2,008)	157,675	151,096	6,579	248,401	243,830	4,571
Restricted	6,595	5,930	665	2,014	4,415	(2,401)	8,609	10,345	(1,736)
Unrestricted	(11,255)	10,714	(21,969)	28,102	22,542	5,560	16,847	33,256	(16,409)
Total Net Position	\$ 86,066	\$ 109,378	\$ (23,312)	\$ 187,791	\$ 178,053	\$ 9,738	\$ 273,857	\$ 287,431	\$ (13,574)

The largest component of the City's net position, \$274 million (or 91%), 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 position consists of amounts legally or otherwise externally restricted for debt service and other programs. Of the \$6.59 million of governmental restrictions, \$5.3 million or 80% is restricted for the construction of capital assets. Public safety services accounts for 6 percent or \$394k. A total of \$28.2 million represents the unrestricted net position of the City's business-type activities and may only be spent on golf course operations, water, wastewater and other 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 \$10.5 million to meet ongoing obligations to citizens and creditors. Examples of other City obligations which this remaining amount 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 position for the government as a whole. Governmental activities reported a negative unrestricted fund balance of \$11.2 million due to the first year of implementation of GASB 75. Fund balance was restated by \$30 million to account for prior OPEB liabilities.

## Changes in net position

The Changes in Net Position table illustrates the increase or decrease in net position of the City resulting from its operating activities. The City's overall financial position improved in 2018 (not including the impacts of GASB 75). With the restatement of fund balance to account for GASB 75, the governmental activities saw a decrease of \$23 million. The net position of business-type activities increased by \$9.8 million.

Following is a condensed version of the City's changes in net position. The table shows the revenues, expenses, and related changes in net position 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 Position

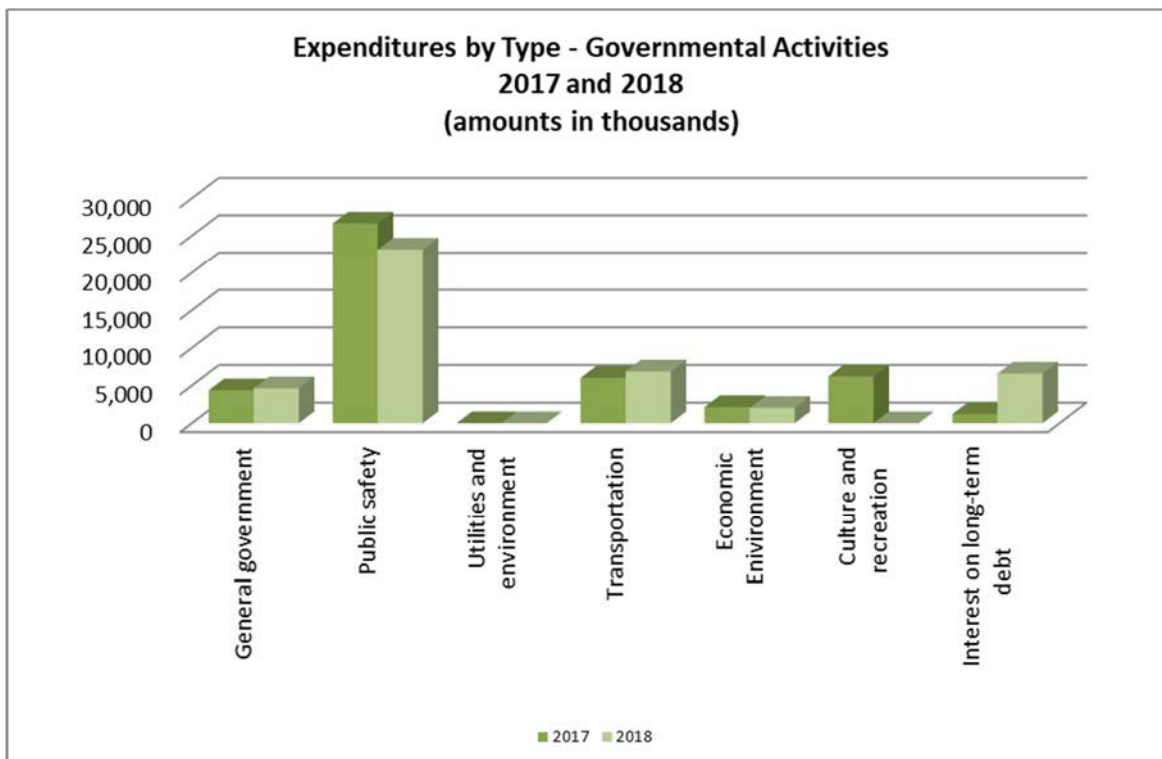
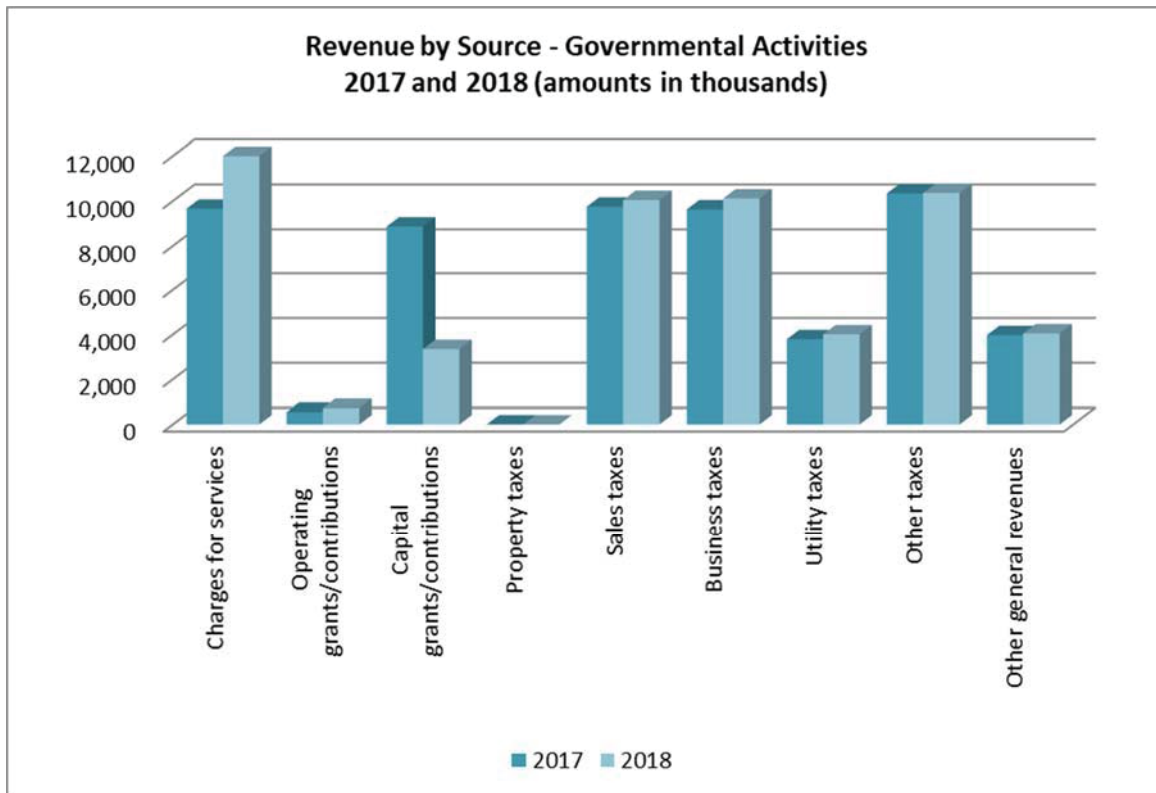
Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2018	2017	Difference	2018	2017	Difference	2018	2017	Difference
<b>Revenues</b>									
Program revenues									
Charges for services	\$ 11,999	\$ 9,658	\$ 2,341	\$ 37,760	\$ 35,986	\$ 1,774	\$ 49,759	\$ 45,644	\$ 4,115
Operating grants/contributions	725	547	178	-	-	-	725	547	178
Capital grants/contributions	3,349	8,862	(5,513)	3,278	3,691	(413)	6,627	12,553	(5,926)
General revenues	-	-	-	-	-	-	-	-	-
Property taxes	10,045	9,747	298	-	-	-	10,045	9,747	298
Sales taxes	10,114	9,626	488	77	87	(10)	10,191	9,713	478
Business taxes	4,006	3,788	218	8	8	-	4,014	3,796	218
Utility taxes	10,358	10,338	20	-	-	-	10,358	10,338	20
Other taxes	4,049	3,970	79	-	-	-	4,049	3,970	79
Other general revenues	711	455	256	830	(109)	939	1,541	346	1,195
Total revenues	\$ 55,356	\$ 56,991	\$ (1,635)	\$ 41,953	\$ 39,663	\$ 2,290	\$ 97,309	\$ 96,654	\$ 655
<b>Expenses</b>									
Governmental activities									
General government	4,631	4,368	263	-	-	-	4,631	4,368	263
Public safety	23,143	26,646	(3,503)	-	-	-	23,143	26,646	(3,503)
Transportation	6,869	6,015	854	-	-	-	6,869	6,015	854
Economic Environment	2,038	2,143	(105)	-	-	-	2,038	2,143	(105)
Culture and recreation	6,582	6,211	371	-	-	-	6,582	6,211	371
Interest on long-term debt	1,168	1,212	(44)	-	-	-	1,168	1,212	(44)
Business-type activities									
Water	-	-	-	13,637	13,690	(53)	13,637	13,690	(53)
Wastewater	-	-	-	14,727	13,653	1,074	14,727	13,653	1,074
Golf course	-	-	-	4,364	4,016	348	4,364	4,016	348
Stormwater	-	-	-	2,938	3,417	(479)	2,938	3,417	(479)
Total expenses	\$ 44,431	\$ 46,595	\$ (2,164)	\$ 35,666	\$ 34,776	\$ 890	\$ 80,097	\$ 81,371	\$ (1,274)
Excess of revenues over expenses	10,925	10,396	529	6,287	4,887	1,400	17,212	15,283	1,929
Transfers	(3,449)	-	(3,449)	3,449	-	3,449	-	-	-
Change in net position	7,476	10,396	(2,920)	9,736	4,887	4,849	17,212	15,283	1,929
Net position - beginning	109,378	97,995	11,383	178,054	173,167	4,887	287,432	271,162	16,270
Change in Accounting Method GA:	(30,787)	987	(31,774)	-	-	-	(30,787)	987	(31,774)
Net position - ending	\$ 86,067	\$ 109,378	\$ (23,311)	\$ 187,790	\$ 178,054	\$ 9,736	\$ 273,857	\$ 287,432	\$ (13,575)

**Governmental activities** accounted for a decrease of \$23 million of the total change in net position of (\$13) million. Significant elements of the increase are as follows:

- Not including the impacts of GASB 75 (decrease of \$30 million in Fund Balance) the City saw significant improvements across the board.
- The City saw a significant increase in property, sales and business taxes \$.298 million, \$.478 million and \$.218 million respectively.
- Expenditures decreased by 4% in 2018 compared to 2017. Small changes occurred in many functional areas, as a significant effort was made to match available resources. Public Safety saw the largest savings, recognizing a \$3.5 million decrease year over year.

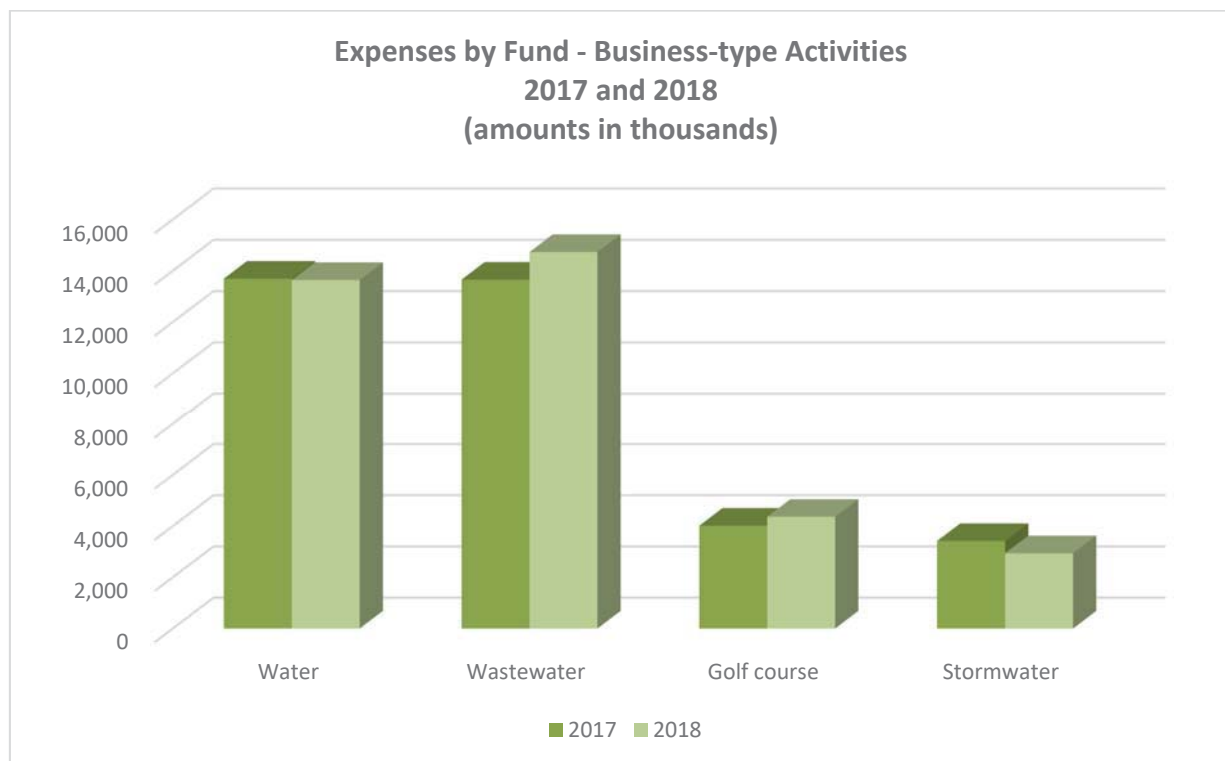
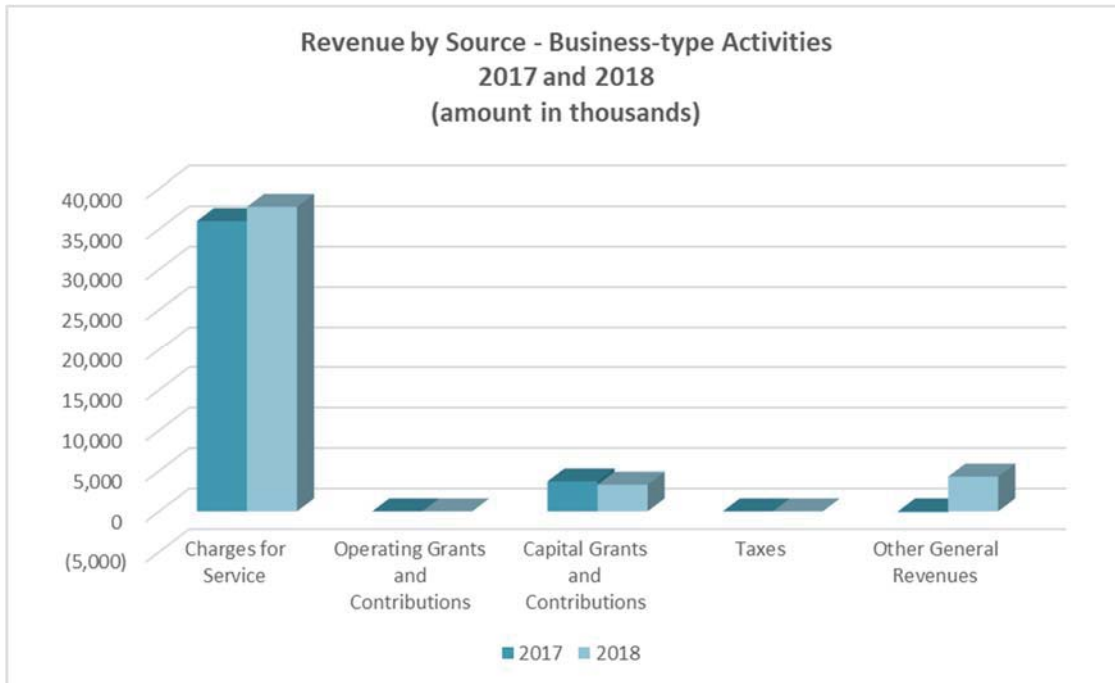


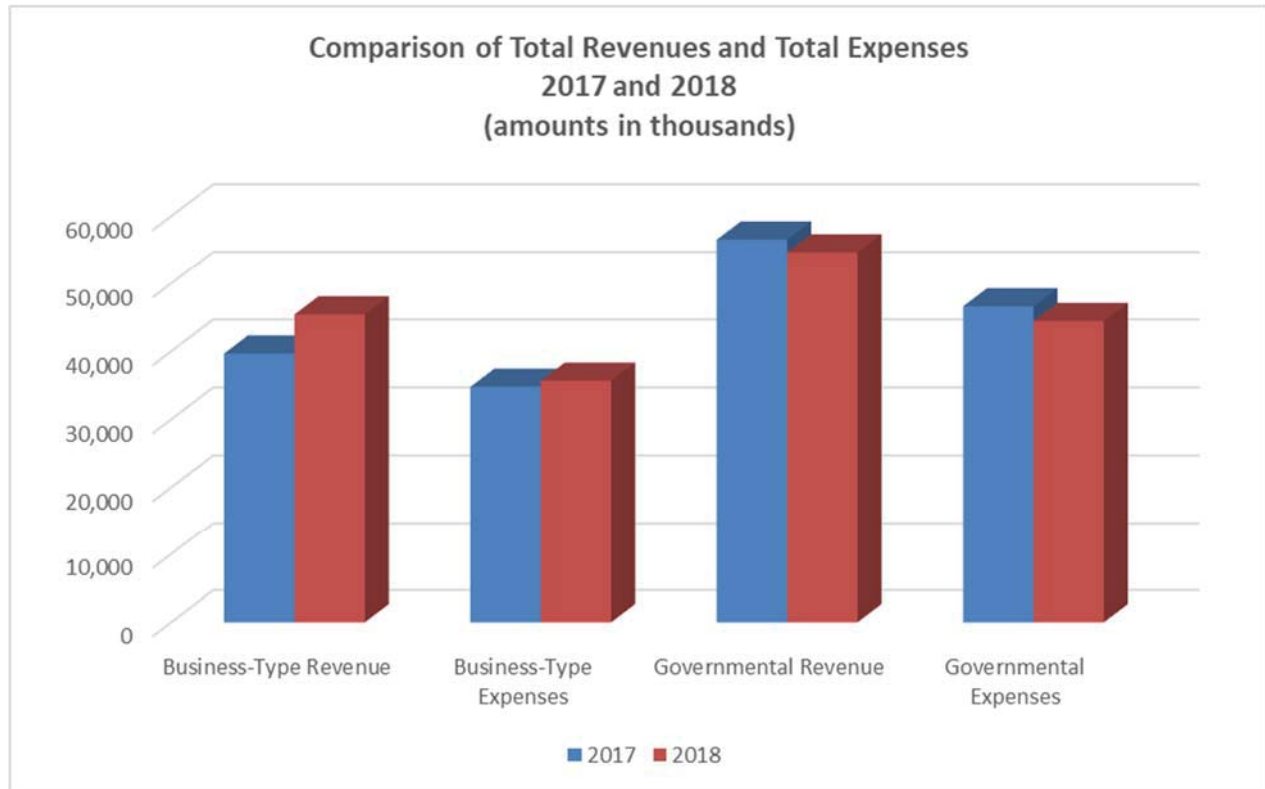
- Total revenue from governmental activities in 2018 decreased by \$1.3 million from 2017. Program revenues decreased by \$2.99 million. Capital Grants represented the largest decrease (\$5.5 million) in Fund Balance.



**Business-type activities** increased the City's net position by \$9.7 million

- The significant change in fund balance can be mainly attributed to capital asset additions and reduction in expenses (attributable to recognized reduction in pension expense per GASB 68). The utilities remained consistent from the prior year.





## 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 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 2018, the fund balance of the General Fund was \$12 million. As a measure of the fund's liquidity, the 2018 ending fund balance is 32% of the fund's 2018 expenditures, an increase of 3% over 2017's 29%.

The General Fund ending fund balance increased in 2018 by \$2.0 million. Revenues increased from \$37.8 million in 2017 to \$40.6 million in 2018. The City saw steady increases over all revenue categories in 2018. Sales and Business taxes generated \$1.0 million of the \$2.8 million increase. Expenditures increase from \$35.5 million to \$37.9 million during the same period. Major highlights from the 2018 expenditure activity the completion of the 1<sup>st</sup> and 5<sup>th</sup> floor remodel of the Norm Dick's Government Center and the Affordable Housing program that was piloted in 2018.

### Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. There were no significant transactions pertaining to the proprietary funds.

### General Fund Budget Variations

The General Fund collected revenues at 94% of the amended amount budgeted or \$2.65 million less than budgeted. Expenditures for 2018 were 86% of the amended budget resulting in actual expenditures being \$6.2 million less than the budgeted amount. The positive expenditure budget variance is largely attributable savings in budgeted personnel.



The General Fund budget was balanced in 2018. The original budget provided for a decrease to the fund balance of \$1.2 million. The budget was amended two times during 2018. The final amended budget provided for a decrease to fund balance of \$2.2 million. At the conclusion of 2018, the General Fund increased budgetary fund balance by \$1.2 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, 2018, amounts to \$307 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, construction in progress, utility transmission/distribution systems, roads and intangibles.

The major capital asset additions for governmental activities during 2018 street related projects in the amount of \$6.9 million. Specifically the City worked on the following:

- Lebo Boulevard Pedestrian Improvement Project \$5,008,842
- Residential Street Segments totaling \$323,466
- West Belfair Valley Road and Tracyton road improvements \$1,594,491

The major capital assets changes for business-type activities included the construction of wastewater and water capital improvement projects identified within the City's 2018 capital improvement plan.

### Capital Assets (net of depreciation)

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2018	2017	Difference	2018	2017	Difference	2018	2017	Difference
Land	\$ 20,073	\$ 20,082	\$ (9)	\$ 9,882	\$ 9,749	\$ 133	\$ 29,955	\$ 29,831	\$ 124
Buildings	45,441	46,728	(1,287)	34,356	34,972	(616)	79,797	81,700	(1,903)
Improvements/Infrastructure	43,765	39,038	4,727	102,459	97,795	4,664	146,224	136,833	9,391
Machinery and Equipment	5,023	2,572	2,451	36,936	36,342	594	41,959	38,914	3,045
Construction in Progress	4,281	11,669	(7,388)	4,702	4,492	210	8,983	16,161	(7,178)
Intangibles	5	5	-	243	213	30	248	218	30
<b>TOTAL</b>	<b>\$ 118,588</b>	<b>\$ 120,094</b>	<b>\$ (1,506)</b>	<b>\$ 188,578</b>	<b>\$ 183,563</b>	<b>\$ 5,015</b>	<b>\$ 307,166</b>	<b>\$ 303,657</b>	<b>\$ 3,509</b>

Additional information on the City's capital assets can be found in Note 5.

### Long-term debt

#### Outstanding Debt - General Obligation and Revenue Bonds

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2018	2017	Difference	2018	2017	Difference	2018	2017	Difference
General Obligation Bonds	\$ 27,750	\$29,520	\$ (1,770)	\$ 3,610	\$ 3,925	\$ (315)	\$ 31,360	\$ 33,445	\$ (2,085)
General Obligation Notes	-	-	-	-	-	-	-	-	-
Revenue Bonds	-	-	-	14,450	15,440	(990)	14,450	15,440	(990)
Revenue Loans	-	-	-	11,559	14,217	(2,658)	11,559	14,217	(2,658)
<b>TOTAL</b>	<b>\$ 27,750</b>	<b>\$29,520</b>	<b>\$ (1,770)</b>	<b>\$29,619</b>	<b>\$33,582</b>	<b>\$ (3,963)</b>	<b>\$ 57,369</b>	<b>\$ 63,102</b>	<b>\$ (5,733)</b>

Additional Information on the City's long-term debt can be found in Note 10 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

Several factors that affect the economic climate in Bremerton were considered when preparing the City's 2018 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 national, regional and local economic conditions continued to show growth during 2018 and 2019.

Over the past several years, Bremerton has been successful in attracting state and federal grant funds for major transportation improvement projects and the Lower Wheaton Way Washington Ave and Lebo Blvd Pedestrian Access funds. In 2018 the City was awarded multiple state and federal grants. Future outside funding opportunities will be highly competitive and Bremerton, due to its current economic demographics, should compete very well for certain projects.

Revitalization efforts are a product of both public and private investment. Public investment in this multi-year effort includes the construction or renovation of facilities to provide city services including new police, fire, court and administrative buildings, the construction of 2 new parks (Manette Park and Warren Ave Playfield) and the renovation of several major parks, transportation and utility projects are all designed to improve the lives of city residents. Private investment has included the construction of the 606 and Spyglass apartments Marina Square, Burwell Apartments and other locally owned businesses. Additionally, there are other projects underway, including new commercial buildings for business and recreational purposes as well as new single family and multifamily residential projects.

Economic development is a critical component to 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.

In May 2012, the City began a yearlong comprehensive rate analysis on its Water, Wastewater, and Stormwater utilities, to include an analysis of its revenue and capital requirements for a minimum six year horizon. As a result of a yearlong comprehensive rate analysis on its Water, Wastewater and Stormwater utilities the City Council adopted the analysis and the first of planned annual rates increases on April 3, 2013 to adequately fund the operations and maintenance, capital, and the anticipated debt service needs for the three utilities. Rates have been increase gradually from 2014 to 2018 to keep up with the funding requirements of the utilities. The analysis anticipated the issuance of up to a maximum of \$35 million in revenue bonds over six years. In 2016 the City issued \$7.855 million in Revenue bonds to finance identified capital improvements. Currently additional bonding is not being considered in 2020 for the Utilities.

## **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 100, Bremerton, WA 98337-1873.

**City of Bremerton**  
**Statement of Net Position**  
**December 31, 2018**

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
<b>Assets</b>			
Current assets:			
Cash & Cash Equivalents	\$ 8,104,341	\$ 11,722,401	\$ 19,826,742
Investments	12,204,402	16,005,904	28,210,306
Receivables	6,446,820	5,545,761	11,992,581
Internal balances	(683,718)	683,718	-
Due from other governments	253,840	5,514	259,354
Inventories	207,808	1,506,830	1,714,638
Other Assets	664,844	23,226	688,070
Restricted assets:			
Cash & Cash Equivalents	3,975,322	734,466	4,709,788
Investments	2,619,789	1,002,848	3,622,637
Due from other governments	34,697	-	34,697
Other	39,669	-	39,669
Notes and contracts receivable:			
Due in more than one year	-	154,220	154,220
Capital assets net of depreciation	118,588,972	188,577,394	307,166,366
Net Pension Asset	10,769,368	-	10,769,368
<b>Total assets</b>	<b>\$ 163,226,154</b>	<b>\$ 225,962,282</b>	<b>\$ 389,188,436</b>
<b>Deferred outflows of resources</b>			
Deferred amount on refunding	\$ 745,531	\$ 51,196	\$ 796,727
Deferred amount related to OPEB	435,156	-	435,156
Deferred amount related to pension	1,908,290	661,142	2,569,432
<b>Total Deferred outflow of resources</b>	<b>\$ 3,088,978</b>	<b>\$ 712,338</b>	<b>\$ 3,801,316</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and other current liabilities	\$ 1,882,879	\$ 1,631,877	\$ 3,514,756
Matured long term obligations	199,436	21,505	220,941
Employee wages payable	1,212,920	766,841	1,979,761
Other accrued liabilities	374,964	197,110	572,074
Custodial accounts	68,775	185,564	254,339
Unearned Revenue	-	101,846	101,846
Noncurrent liabilities:			
Net Pension Liability	4,237,230	3,483,635	7,720,865
Total OPEB Liability	35,765,404	-	35,765,404
Due within one year	1,820,000	3,296,455	5,116,455
Due in more than one year	29,913,547	28,059,077	57,972,624
<b>Total liabilities</b>	<b>\$ 75,475,155</b>	<b>\$ 37,743,910</b>	<b>\$ 113,219,065</b>
<b>Deferred inflows of resources related to pension</b>	<b>\$ 4,772,879</b>	<b>\$ 1,139,910</b>	<b>\$ 5,912,789</b>
<b>Net Position</b>			
Net investment in capital assets	\$ 90,725,735	\$ 157,675,201	\$ 248,400,936
Restricted for:			
Tourism promotion & facilities	438,731	-	438,731
Community development block grant	42,107	-	42,107
Public safety	394,321	-	394,321
Public Access Television	190,796	-	190,796
Debt service	99,354	1,649,795	1,749,149
Workers compensation	100,000	-	100,000
Capital projects	5,329,802	364,088	5,693,890
Unrestricted	(11,253,748)	28,101,716	16,847,968
<b>Total Net Position</b>	<b>\$ 86,067,098</b>	<b>\$ 187,790,800</b>	<b>\$ 273,857,898</b>

**City of Bremerton  
Statement of Activities  
For the Year Ended December 31, 2018**

Function/Program	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 4,630,461	\$ 969,849	\$ -	\$ -	\$ (3,660,612)	\$ -	\$ (3,660,612)
Public safety	23,143,318	3,201,241	381,473	99,592	(19,461,012)	-	(19,461,012)
Transportation	6,869,055	4,171,037	-	2,573,941	(124,077)	-	(124,077)
Economic environment	2,038,178	1,282,129	337,266	-	(418,783)	-	(418,783)
Culture and recreation	6,581,598	2,375,010	6,200	675,000	(3,525,388)	-	(3,525,388)
Interest on long-term debt	1,168,037	-	-	-	(1,168,037)	-	(1,168,037)
Total governmental activities	44,430,647	11,999,266	724,939	3,348,533	(28,357,909)	-	(28,357,909)
Business-type activities							
Water	13,636,796	13,943,292	-	1,695,972	-	2,002,468	2,002,468
Wastewater	14,727,468	15,476,717	-	659,556	-	1,408,805	1,408,805
Stormwater	2,938,183	3,729,197	-	922,751	-	1,713,765	1,713,765
Golf course	4,364,422	4,611,253	-	-	-	246,831	246,831
Total business-type activities	35,666,869	37,760,459	-	3,278,279	-	5,371,869	5,371,869
Total government	\$ 80,097,516	\$ 49,759,725	\$ 724,939	\$ 6,626,812	\$ (28,357,909)	\$ 5,371,869	\$ (22,986,040)
General Revenues							
Taxes:							
Property					10,044,803	-	10,044,803
Sales					10,114,246	77,053	10,191,299
Business					4,005,726	8,056	4,013,782
Utility					10,358,465	-	10,358,465
Other					4,049,174	-	4,049,174
Unrestricted investment interest					500,959	439,616	940,575
Miscellaneous					14,437	626,819	641,256
Gain/(Loss) on disposal of capital assets					195,708	(235,261)	(39,553)
Transfers, internal activities					(3,449,014)	3,449,014	-
Total general revenues and transfers					35,834,504	4,365,297	40,199,801
Change in net position					7,476,595	9,737,166	17,213,761
Net position, beginning of year					109,377,800	178,053,634	287,431,434
Cumulative Effect of Change in Accounting Principle					(30,787,297)	-	(30,787,297)
Net position, end of year					\$ 86,067,098	\$ 187,790,800	\$ 273,857,898

**City of Bremerton  
Balance Sheet  
Governmental Funds  
December 31, 2018**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
Cash and equivalents	\$ 5,000,565	\$ 1,472,093	\$ 6,472,658
Cash and equivalents, restricted	117,097	3,758,225	3,875,322
Investments	6,987,716	2,901,997	9,889,713
Investments, restricted	-	2,619,789	2,619,789
Receivables, net	5,476,846	919,099	6,395,945
Due from other funds	974,727	431,897	1,406,624
Due from other governments	84,543	167,921	252,464
Inventories	30,279	-	30,279
Other assets	-	451,628	451,628
Total assets	<u>18,671,773</u>	<u>12,722,649</u>	<u>31,394,422</u>
Deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u><u>\$ 18,671,773</u></u>	<u><u>\$ 12,722,649</u></u>	<u><u>\$ 31,394,422</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts/contracts payable	\$ 782,740	\$ 581,988	\$ 1,364,728
Due to other funds	1,319,877	800,886	2,120,763
Due to other governments	22,150	-	22,150
Employee wages payable	1,002,857	69,330	1,072,187
Custodial Accounts	53,775	15,000	68,775
Unearned revenue	2,253,025	751,625	3,004,650
Total liabilities	<u>5,434,424</u>	<u>2,218,829</u>	<u>7,653,253</u>
Deferred inflows of resources	<u>905,393</u>	<u>107,601</u>	<u>1,012,994</u>
Total liabilities and Deferred inflows of resources	<u><u>6,339,817</u></u>	<u><u>2,326,430</u></u>	<u><u>8,666,247</u></u>
Fund balances:			
Nonspendable	\$ 30,279	\$ -	\$ 30,279
Restricted	117,097	6,378,014	\$ 6,495,111
Committed	1,298,268	1,269,566	\$ 2,567,834
Assigned	-	2,748,639	\$ 2,748,639
Unassigned	10,886,312	-	\$ 10,886,312
Total fund balances	<u>12,331,956</u>	<u>10,396,219</u>	<u>22,728,175</u>
Total liabilities and fund balances	<u><u>\$ 18,671,773</u></u>	<u><u>\$ 12,722,649</u></u>	<u><u>\$ 31,394,422</u></u>

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

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	118,540,391
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	16,985,786
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 assets.	2,651,468
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(74,838,722)</u>
Net position of governmental activities	<u><u>\$ 86,067,098</u></u>

**City of Bremerton**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**for the Year Ended December 31, 2018**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Governmental Funds Total</b>
<b>REVENUES</b>			
Taxes			
Property	8,670,356	\$ 1,362,646	\$ 10,033,002
Sales	9,827,839	\$ 1,037,625	10,865,464
Business	13,558,042	\$ 656,204	14,214,246
Other	156,644	\$ 3,531,124	3,687,768
Licenses and permits	1,397,726	\$ 280,084	1,677,810
Intergovernmental	1,746,597	\$ 4,601,033	6,347,630
Charges for services	3,650,699	\$ 329,922	3,980,621
Fines and forfeitures	1,206,713	\$ 475,966	1,682,679
Miscellaneous	427,880	\$ 1,844,165	2,272,045
Total revenues	<u>40,642,496</u>	<u>\$ 14,118,769</u>	<u>54,761,265</u>
<b>EXPENDITURES</b>			
Current:			
General government	6,132,369	\$ 200,984	6,333,353
Public safety	24,561,411	\$ 237,959	24,799,370
Utilities and environment	31,103	\$ -	31,103
Transportation	666,519	\$ 4,024,249	4,690,768
Economic environment	1,650,326	\$ 693,137	2,343,463
Mental/physical health	82,030	\$ -	82,030
Culture and recreation	4,483,645	\$ 595,187	5,078,832
Debt service:			
Principal	-	\$ 1,770,000	1,770,000
Interest and other debt issue costs	8,500	\$ 1,176,978	1,185,478
Capital outlay	357,683	\$ 5,814,837	6,172,520
Total expenditures	<u>37,973,586</u>	<u>\$ 14,513,331</u>	<u>52,486,917</u>
Excess (deficiency) of revenues over expenditures	<u>2,668,910</u>	<u>\$ (394,562)</u>	<u>2,274,348</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Capital asset donations & disposal	172,323	\$ 13,829	186,152
Insurance recoveries	6,701	\$ 2,176	8,877
Transfers in	752,995	\$ 3,356,787	4,109,782
Transfers out	(1,587,905)	\$ (3,029,291)	(4,617,196)
Total other financing sources and uses	<u>(655,886)</u>	<u>\$ 343,501</u>	<u>(312,385)</u>
Net change in fund balances	2,013,024	\$ (51,061)	1,961,963
Fund balances-beginning	<u>10,318,932</u>	<u>\$ 10,447,280</u>	<u>20,766,212</u>
Fund balances-ending	<u><u>12,331,956</u></u>	<u><u>\$ 10,396,219</u></u>	<u><u>\$ 22,728,175</u></u>

**City of Bremerton**  
**Reconcillation of the Statement of Revenues,**  
**Expenditures and Changes in Fund Balance of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended December 31, 2018**

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

Net change in fund balances – total government funds	\$ 1,961,963
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.	1,808,897
Revenues and expenses in the statement of activities that do not provide current financial resources are not reported in the funds.	(29,833,170)
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, government funds report the effect of 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.	1,778,692
Internal service funds are used by management to charge the costs of fleet maintenance and risk management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>972,916</u>
Change in net position of governmental activities	<u><u>\$ (23,310,702)</u></u>

**City of Bremerton**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual General Fund**  
**For the Year Ended December 31, 2018**

	<b>Original Budget 2018</b>	<b>Final Budget 2018</b>	<b>Actual 2018</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Taxes	\$ 31,489,424	\$ 31,489,424	\$ 32,212,881	\$ 723,457
Licenses and permits	1,237,569	1,237,569	1,397,726	160,157
Intergovernmental	1,171,668	1,455,671	1,746,597	290,926
Charges for services	5,501,101	5,564,471	1,927,624	(3,636,847)
Fines and forfeitures	1,246,450	1,246,450	1,206,713	(39,737)
Other revenues	435,740	555,740	405,327	(150,413)
Total revenues	41,081,952	41,549,325	38,896,868	(2,652,457)
<b>EXPENDITURES</b>				
City Council	364,267	365,867	130,981	234,886
Executive	352,155	363,855	333,473	30,382
Finance	1,483,954	1,557,454	959,515	597,939
Legal	1,199,645	1,282,575	682,801	599,774
Human Resources	616,522	627,322	322,987	304,335
Community development	2,216,822	2,331,699	1,758,894	572,805
Municipal Court	1,424,325	1,435,021	1,407,776	27,245
City Auditor	83,757	83,757	50,986	32,771
Law enforcement	11,266,539	11,430,021	10,962,116	467,905
Fire/Emergency medical services	10,135,325	10,396,128	10,056,294	339,834
Police & fire pension	1,696,500	1,696,500	1,658,400	38,100
Facilities	1,493,477	2,146,277	1,391,825	754,452
Parks and recreation	2,872,890	2,949,971	2,892,930	57,041
Engineering	2,452,267	2,452,467	679,158	1,773,309
Non-departmental	4,674,387	4,709,731	4,372,675	337,056
Total expenditures	42,332,832	43,828,645	37,660,811	6,167,835
Excess (deficiency) of revenues over expenditures	(1,250,880)	(2,279,320)	1,236,057	3,515,377
Fund balances-beginning	7,228,469	9,754,376	9,754,376	-
Fund balances-ending	\$ 5,977,589	\$ 7,475,056	\$ 10,990,433	\$ 3,515,377

Amounts reported for actual expenses is different because of the consolidation of Contingency Reserve and Conference Center activity included in the General Fund of the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental funds:

Conference Center Fund Balance-Beginning	\$ (459,980)
Conference Center Charges for Services Revenue	1,723,074
Conference Center Other Revenues	668,360
Conference Center Operating Expenses	(1,888,200)
Contingency Reserve Fund Balance-Beginning	1,024,536
Contingency Reserve Other Revenues	286,212
Contingency Reserve Operating Expenses	(12,479)
<b>Fund Balances Ending for General Fund of the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental funds.</b>	<b>\$ 12,331,956</b>

<b>EXPENDITURES</b>				
Personnel	30,911,500	30,458,943	26,386,246	4,072,698
Supplies, services & taxes	10,063,358	11,264,214	9,359,485	1,904,729
Capital expenditure	187,000	499,514	327,175	172,339
Transfers	1,170,974	1,605,974	1,587,905	18,069
Total expenditures	42,332,832	43,828,645	37,660,811	6,167,835



**City of Bremerton  
Statement of Net Position  
Proprietary Funds  
December 31, 2018**

	<b>Business-type Activities Enterprise Funds</b>					<b>Governmental Activities</b>
	<b>Water</b>	<b>Golf Course</b>	<b>Wastewater</b>	<b>Stormwater</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>ASSETS AND DEFERRED OUTFLOWS</b>						
Current assets:						
Cash and cash equivalents	\$ 3,416,953	\$ 268,089	\$ 4,798,123	\$ 1,729,738	\$ 10,212,903	\$ 3,141,181
Restricted cash	56,252	-	678,214	-	734,466	100,000
Investments	4,665,548	366,051	6,551,413	2,361,805	13,944,817	4,375,776
Restricted Investments	116,459	-	886,389	-	1,002,848	-
External receivables	2,098,263	133,027	2,613,478	646,520	5,491,288	-
Interest receivables	15,315	1,172	23,821	7,564	47,872	14,014
Due from other funds	85,554	-	53,320	151,630	290,504	1,377,388
Due from other governments	-	-	-	5,514	5,514	-
Inventories	733,619	196,190	577,021	-	1,506,830	177,529
Prepayments	-	23,226	-	-	23,226	252,885
Total current assets	11,187,963	987,755	16,181,779	4,902,771	33,260,268	9,438,773
Noncurrent assets:						
Notes and contracts receivable	154,220	-	-	-	154,220	-
Capital assets net of depreciation	69,153,772	6,649,505	96,522,265	10,302,207	182,627,749	5,998,226
Total noncurrent assets	69,307,992	6,649,505	96,522,265	10,302,207	182,781,969	5,998,226
Total assets	80,495,955	7,637,260	112,704,044	15,204,978	216,042,237	15,436,999
Deferred outflows of resources	392,859	51,196	190,330	77,953	712,338	69,986
Total assets and deferred outflows	\$ 80,888,814	\$ 7,688,456	\$ 112,894,374	\$ 15,282,931	\$ 216,754,575	\$ 15,506,985
<b>LIABILITIES AND DEFERRED INFLOWS</b>						
Current liabilities:						
Accounts/contract payable	457,073	173,502	930,317	65,663	1,626,555	501,325
Claims and Judgements Payable	-	-	-	21,505	21,505	199,436
Due to other funds	207,950	-	446,195	190,071	844,216	109,535
Due to other governments	-	34,572	-	-	34,572	-
Employee wages payable	277,937	181,469	220,543	86,892	766,841	140,733
Other accrued liabilities	30,739	9,686	61,631	6,446	108,502	455
Current portion of long-term debt	730,828	320,000	2,156,563	89,064	3,296,455	-
Custodial accounts	37,845	116,927	30,292	500	185,564	-
Unearned revenue	101,846	-	-	-	101,846	-
Other current liabilities	54,036	-	-	-	54,036	-
Total current liabilities	1,898,254	836,156	3,845,541	460,140	7,040,091	951,484
Noncurrent liabilities:						
Claims and judgments payable	-	-	-	-	-	797,744
Bonds, notes and loans payable	8,020,540	3,290,000	14,419,022	1,927,372	27,656,934	-
Net pension liability	2,639,314	-	585,488	258,833	3,483,635	138,033
Compensated absences	193,698	-	150,187	58,258	402,143	50,136
Total noncurrent liabilities	10,853,552	3,290,000	15,154,697	2,244,463	31,542,712	985,913
Total liabilities	12,751,806	4,126,156	19,000,238	2,704,604	38,582,804	1,937,397
Deferred inflows of resources	562,021	-	427,952	149,937	1,139,910	159,181
Total liabilities and deferred inflows	\$ 13,313,827	\$ 4,126,156	\$ 19,428,190	\$ 2,854,541	\$ 39,722,714	\$ 2,096,578
<b>NET POSITION</b>						
Net investment in capital assets	60,402,404	3,090,701	79,946,680	8,285,771	151,725,556	5,998,226
Restricted for capital assets	-	364,088	-	-	364,088	-
Restricted for debt service	173,084	-	1,476,711	-	1,649,795	-
Restricted for Worker's Compensation	-	-	-	-	-	100,000
Unrestricted	6,999,499	107,511	12,042,793	4,142,619	23,292,422	7,312,181
Total net position	\$ 67,574,987	\$ 3,562,300	\$ 93,466,184	\$ 12,428,390	\$ 177,031,861	\$ 13,410,407
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					\$ 10,758,939	
Net position of business-type activities					\$ 187,790,800	

**City of Bremerton**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**for the Year Ended December 31, 2018**

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Stormwater	Total	Internal Service Funds
<b>OPERATING REVENUES</b>						
Charges for services	\$ 13,458,468	\$ 4,611,253	\$ 15,544,747	\$ 3,730,647	\$ 37,345,115	\$ 5,355,284
Other operating revenue	484,824	-	17,079	(1,450)	500,453	6,944
Total operating revenues	13,943,292	4,611,253	15,561,826	3,729,197	37,845,568	5,362,228
<b>OPERATING EXPENSES</b>						
Operations and maintenance	11,100,745	90,838	10,743,147	2,686,259	24,620,989	3,741,557
Contracted Operations	-	3,964,833	-	-	3,964,833	-
Customer service and marketing	274,959	-	175,447	106,039	556,445	-
General administration	251,003	-	138,470	119,301	508,774	300,261
Depreciation and amortization	2,496,198	161,829	3,626,201	149,108	6,433,336	708,498
Risk transfer payments	-	-	-	-	-	582,927
Payments to claimants & beneficiaries	-	-	-	-	-	245,140
Other operating expenses	-	-	-	-	-	3,501
Total operating expenses	14,122,905	4,217,500	14,683,265	3,060,707	36,084,377	5,581,884
Operating income (loss)	(179,613)	393,753	878,561	668,490	1,761,191	(219,656)
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Interest and investment revenue	68,598	11,060	231,648	59,224	370,530	120,454
Interest expense	(247,112)	(146,922)	(405,010)	(54,541)	(853,585)	-
Gain (loss) on capital asset disposal	(217,381)	-	(17,880)	-	(235,261)	21,659
Other nonoperating revenue/expense	530,740	-	89,990	6,089	626,819	88,967
Total nonoperating revenues (expenses)	134,845	(135,862)	(101,252)	10,772	(91,497)	231,080
Income (loss) before contributions and transfers	(44,768)	257,891	777,309	679,262	1,669,694	11,424
Capital contributions	2,290,237	-	2,144,398	2,135,244	6,569,879	1,951,671
Transfers to other funds	-	-	-	(26,667)	(26,667)	(250,000)
Transfers from other funds	69,538	-	114,543	-	184,081	600,000
Change in net position	2,315,007	257,891	3,036,250	2,787,839	8,396,987	2,313,095
Total net position - beginning	65,259,980	3,304,409	90,429,934	9,640,551	168,634,874	11,097,312
Total net position - ending	\$ 67,574,987	\$ 3,562,300	\$ 93,466,184	\$ 12,428,390	\$ 177,031,861	\$ 13,410,407
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					1,340,179	
Change in net position of business-type activities.					\$ 9,737,166	

**City of Bremerton**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**for the Year Ended December 31, 2018**

	<b>Business-type Activities</b>					<b>Governmental</b>
	<b>Enterprise Funds</b>					<b>Activities</b>
	<b>Water</b>	<b>Golf Course</b>	<b>Wastewater</b>	<b>Stormwater</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash received from customers	\$ 13,374,914	\$ 4,552,290	\$ 15,663,151	\$ 3,763,800	\$ 37,354,155	\$ -
Cash receipts from interfund services	61,596	-	-	-	61,596	5,488,229
Other receipts and payments	1,310,343	-	107,069	(1,450)	1,415,962	9,609
Cash payments to suppliers	(3,648,968)	(3,976,310)	(2,164,104)	(465,280)	(10,254,662)	(1,518,284)
Cash payments to employees	(4,066,111)	-	(2,939,294)	(1,261,663)	(8,267,068)	(1,703,093)
Cash payments for interfund services	(4,438,705)	(90,838)	(5,075,701)	(1,503,604)	(11,108,848)	(534,442)
Purchase of insurance	-	-	-	-	-	(582,927)
Payment for insurance claims	-	-	-	-	-	(1,020,532)
Net cash provided (used) by operating activities	2,593,069	485,142	5,591,121	531,803	9,201,135	138,560
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Grant proceeds	-	-	-	26,018	26,018	-
Transfer ins	69,538	-	-	-	69,538	600,000
Transfer outs	-	-	114,543	(26,667)	87,876	(250,000)
Net cash provided (used) by noncapital financing activities	69,538	-	114,543	(649)	183,432	350,000
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Loan proceeds	92,881	-	-	-	92,881	-
Capital contributions	1,517,413	-	406,707	775,969	2,700,089	1,199,784
Collections on notes receivable	44,296	-	-	-	44,296	-
Sale or involuntary conversion of capital assets	-	-	-	-	-	174,522
Acquisition and construction of capital assets	(2,291,382)	-	(4,366,766)	(153,628)	(6,811,776)	(1,757,846)
Principal paid bonds	(197,528)	(315,000)	(715,672)	(76,800)	(1,305,000)	-
Principal paid on other debt	(747,049)	-	(1,604,131)	(9,864)	(2,361,044)	-
Interest paid on bonds and other debt	(251,959)	(200,908)	(455,229)	(67,502)	(975,598)	-
Net cash provided (used) by capital and related financing activities	(1,833,328)	(515,908)	(6,735,091)	468,175	(8,616,152)	(383,540)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>						
Interest on loans and investments	65,301	10,926	227,549	54,267	358,043	124,170
Net change in investments	(410,713)	21,168	27,355	(1,389,618)	(1,751,808)	(1,854)
Net cash provided (used) by investing activities	(345,412)	32,094	254,904	(1,335,351)	(1,393,765)	122,316
Net increase (decrease) in cash and cash equivalents	483,867	1,328	(774,523)	(336,022)	(625,350)	227,336
Cash and equivalents - beginning	2,989,338	266,761	6,250,860	2,065,760	11,572,719	3,013,845
Cash and equivalents - ending	\$ 3,473,205	\$ 268,089	\$ 5,476,337	\$ 1,729,738	\$ 10,947,369	\$ 3,241,181
Cash at the end of the year consists of:						
Operating fund cash	3,416,953	268,089	4,798,123	1,729,738	10,212,903	3,141,181
Restricted cash	56,252	-	678,214	-	734,466	100,000
Total cash at end of year	\$ 3,473,205	\$ 268,089	\$ 5,476,337	\$ 1,729,738	\$ 10,947,369	\$ 3,241,181

**City of Bremerton  
Statement of Cash Flows  
Proprietary Funds  
for the Year Ended December 31, 2018**

	<b>Business-type Activities Enterprise Funds</b>					<b>Governmental Activities</b>
	<b>Water</b>	<b>Golf Course</b>	<b>Wastewater</b>	<b>Stormwater</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>						
Operating income (loss)	\$ (179,613)	\$ 393,753	\$ 871,247	\$ 668,490	\$ 1,753,877	\$ (219,656)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	2,496,198	161,829	3,626,201	149,108	6,433,336	708,498
Contra pension expense	(146,387)	-	(294,858)	(273,462)	(714,707)	(36,032)
Receipt of non-operating revenues	502,622	-	89,990	-	592,612	2,665
Assets contributed to ISF	63,581	-	-	-	63,581	-
Decrease (increase) in receivables	254,994	(51,075)	108,581	33,153	345,653	-
Decrease (increase) in due from other funds/govt	61,160	-	377,596	(77,749)	361,007	132,945
Decrease (increase) in prepaid expenses	-	214	-	-	214	-
Decrease (increase) in inventory	(37,719)	(11,021)	5,274	-	(43,466)	(85,107)
Increase (decrease) in accounts payable	(179,457)	(21,446)	679,932	(59,173)	419,856	373,181
Increase (decrease) in due to other funds/govt	(249,346)	(1,385)	97,575	86,031	(67,125)	32,213
Increase (decrease) in employee wages payable	(2,879)	22,160	24,996	8,326	52,603	(887)
Increase (decrease) in employee leave payable	(36,030)	-	(5,236)	(2,921)	(44,187)	6,132
Increase (decrease) in other payables	45,945	(7,887)	9,823	-	47,881	(775,392)
Net cash provided by operating activities	<u>\$ 2,593,069</u>	<u>\$ 485,142</u>	<u>\$ 5,591,121</u>	<u>\$ 531,803</u>	<u>\$ 9,201,135</u>	<u>\$ 138,560</u>
<b>Noncash investing, capital and financial activities</b>						
Developers contributed infrastructure	\$ 772,824	\$ -	\$ 1,737,691	\$ 1,359,275	\$ 3,869,790	\$ -

**City of Bremerton**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**December 31, 2018**

	<b>Agency Funds</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 541,451
Total assets	<u>\$ 541,451</u>
 <b>Deferred outflows of resources</b>	 <u>\$ -</u>
 <b>LIABILITIES</b>	
Accounts/contracts payable	39,671
Other current liabilities	501,780
Total liabilities	<u>\$ 541,451</u>
 <b>Deferred inflows of resources</b>	 <u>\$ -</u>

**City of Bremerton**  
**Notes to Financial Statements**  
**January 1, 2018 – December 31, 2018**

**1. Summary of significant accounting policies**

The financial statements of the City of Bremerton have been prepared in conformity with generally accepted accounting principles (GAAP) 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.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City (and its component units). 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 to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree 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 fund 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.

**Accounting and Reporting Changes**

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)* is effective for fiscal years beginning after June 15, 2017. The scope of this Statement addresses accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to employees of state and local governmental employers. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

The City has implemented this pronouncement during the 2018 fiscal year. Due to the implementation of GASB Statement No. 75, the City has deficit balance in unrestricted net position of (\$11,253,748) for governmental activities on the Statement of Net Position. The City recorded a cumulative effect of change in accounting principle adjustment to

beginning net position as previously reported of (\$30,787,297) for governmental activities. Additional information regarding GASB Statement No. 75 can be found in Note 15.

GASB Statement No. 85, Omnibus 2017 is effective for fiscal years beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application. The City implemented the applicable requirements of the Statement during the 2018 fiscal year.

### **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 and reported 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 City's stormwater fund does not meet the criteria for presentation as a major fund but because it is the only other proprietary fund it is listed on the face of the proprietary fund statements with the major funds.

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

Additionally, the City reports the following fund types:

Debt Service Funds account for the resources accumulated and payments made for principal and interest on general obligation debt except those required to be accounted for in another fund.

Special Revenue Funds account for the proceeds of specific revenue sources to finance specific activities as required by law or administrative regulation. Their revenues are earmarked to finance certain activities or functions.

Capital Project Funds account for the acquisition or development of capital facilities for governmental activities. Their major sources of revenues are from proceeds from general obligation bonds, loans, real estate excise tax, impact fees, and grants from other agencies and contributions from other funds.

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, Information Technology Services, Self-insured medical program, Unemployment and Employee leave payout activities. In all 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.

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 utility taxes levied on the city's own utilities. 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 connection 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 administration, operations and 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.

#### **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 budgetary basis of accounting differs from generally accepted accounting principles. The city budgets the Contingency Reserve and Conference Center activities as if they were special revenue funds. However, GAAP requires these activities to be reported within the General fund. The Conference Center fund does not have a significant stream of restricted resources and under GAAP the Contingency Reserve fund was established for a specific purpose, stabilization, which should be included in the General fund. From a budgetary perspective, the city budgets for each of these funds separately from the General fund. The budgetary comparison for the General Fund does not include the managerial funds.

##### **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 revisions within a fund or any revisions that alter the total expenditures of a fund or affect the number of authorized employee positions or salary ranges must be approved by the City Council. The City's budget was amended two times in 2018.

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 Net Position**

### **1. Cash and Cash Equivalents**

It is the City's policy to invest all temporary cash surpluses. At December 31, 2018, the City was holding \$25,077,981, in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds.

The amounts reported as cash and cash equivalents also include compensating balances maintained with the City's bank in lieu of payments for services rendered. The average compensating balance maintained during 2018 was \$5,916,982.

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

### **2. Investments - See Note 3 Deposits and Investments.**

### **3. Receivables**

Receivables consist of property, B&O, utility, sales and parking taxes, and housing rehabilitation loans resulting from the federal Department of Housing and Urban Development., as well as other revenues earned by the City from the County, State and other taxpayers but not yet received. Also included are customers' 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.

### **4. Amounts Due to and From Other Funds and Governments**

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 13.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

### **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 portion of fund balance not available for future expenditure is included in the non-spendable category of fund balance. 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 by the FIFO (first in first out) method which approximates market value.

### **6. Restricted Assets and Liabilities**

These accounts contain resources for programs, construction, replacement, and debt service. Specific debt service reserve requirements are described in Note 9, *Long-Term Debt*.

Restricted assets are composed of the following:

<b>Governmental type:</b>	
Cash and investments - Construction	\$ 5,329,802
Cash and investments - HUD programs	42,107
Cash and investments - Public safety	394,321
Cash and investments - Public Television	190,796
Cash and investments - Workers compensation	100,000
Cash and investments - Tourism promotion	438,731
Cash and investments - Debt Service	99,354
Receivables - HUD Programs	74,366
Receivables - Tourism promotion	-
External receivables - Public safety	
Total governmental	\$ 6,669,477
<b>Business type:</b>	
Cash and Investments - Debt service	\$ 1,737,314
Total business	\$ 1,737,314

7. Capital Assets. See Note 5, *Capital Assets*.

Capital assets, which include property, plant, equipment, intangible 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 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value per GASB 72, at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The cost of normal maintenance and repairs 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.

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	7-10 Years
Data Processing/Electronic Equipment	5 Years

8. Other Assets

This account reflects various non-current assets of the City including utility water rights and the city's net pension asset, resulting from the funded plans of LEOFF I and II.

#### 9. Deferred outflow of resources

A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. This account includes the portion of a loss on the refunding of debt attributable to future periods. This account also includes pension costs attributable to future periods. See Note 7, *Pension Plans* for a discussion on pension reporting.

#### 10. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, compensatory time, and sick leave benefits.

The City records a liability for all outstanding vacation pay. The payment is based on current wages at termination. Employees with the required length of service may receive cash payouts for all accumulated vacation leave. Maximum vacation payout is dependent on which labor group covers a specific employee based on the following chart:

<u>Employee Group</u>	<u>Maximum Vacation Cash Out</u>
Teamsters	240 hours
IAFF Local 437 (firefighters)	315 hours
Police Guild	360 hours
Police Management	300 hours
Non-represented personnel	240 hours

Non-exempt employees may request compensatory time off in lieu of overtime payment. Unused compensatory time is cashed out upon termination based on wages at that time. The City records a liability for all outstanding compensatory time. Compensatory time is accrued at a rate of one and one-half hours for each hour of overtime worked up to the following maximums allowed:

<u>Employee Group</u>	<u>Maximum Compensatory Time Cash Out</u>
Teamsters	40 hours
IAFF Local 437 (shift personnel)	275 hours
IAFF Local 437 (non-shift personnel)	209 hours
Police Guild	60 hours

Compensatory time may be carried over from year to year.

Upon resignation, employee's ineligible for retirement do not receive any compensation for unused sick leave. Employees that meet the eligibility criteria for service retirement may receive cash payouts of 35% of unused sick leave up to the maximum allowed based on the following:

<u>Employee Group</u>	<u>Maximum Sick Leave Cash out</u>
Teamsters	35% of 960 hours (336 hours max)
IAFF Local 437 (shift firefighters)	35% of 1440 hours (504 hours max)
IAFF Local 437 (non-shift personnel)	35% of 1166 hours (408 hours max)
Police Guild	35% of 1200 hours (420 hours max)
Police Management	35% of 1200 hours (420 hours max)
Non-represented personnel	35% of 960 hours (336 hours max)

The City records a liability for sick leave for all personnel that meet the eligibility criteria for retirement. The payment is based on current wages at time of retirement.

The entire eligible compensated absence liability is reported on the government-wide financial statements. In the proprietary funds, the entire amount of compensated absences is reported as a fund liability.

#### 11. Pensions

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

#### 12. Other Current/Accrued Liabilities

These accounts on the fund statements include deposits payable held on open contracts as well as the current portion of claims and judgments payable.

#### 13. Long-term Debt See Note 9, *Long-Term Debt* and Note 10, *Changes in Long-term Liabilities*.

#### 14. Unearned revenue

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met. This includes property taxes, traffic camera citations, parking citations, court fees and fines and Community Development Block Grant loans. In proprietary funds this amount represents credit balances on customer utility accounts.

#### 15. Deferred inflow of resources

A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. This account also includes changes in pension liability and pension asset attributable to future periods. See Note 7, *Pension Plans* for a discussion on pension reporting.

#### 16. Fund Balance Classification, Details, and Minimum Fund Balance

In the fund financial statements, governmental funds report fund balances based on the extent to which the City is bound to observe constraints on the use of the governmental funds' resources. Fund balances are classified in the following manner:

Non-spendable includes amounts that are either 1) not in spendable form, or 2) legally or contractually required to be maintained intact. Inventories, prepaid items and permanent trust are classified as non-spendable fund balances.

Restricted – includes amounts which are constrained for specific purposes that are 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through enabling legislation.

Committed – includes amounts that can be used for specific purposes with constraints imposed by formal action of the highest level of decision-making authority. The authorization specifying the purposes for which committed funds can be used should have the consent of both the legislative and executive branches of government. The City operates under a Mayor-Council form of government. As Executive Officer, the Mayor supervises the administrative process of the City and works with the City Council. The City Council enacts ordinances and resolutions that may impose, modify or rescind fund balance commitments.

Assigned – includes amounts that are intended to be used for specific purposes but are neither restricted nor committed. The authority for assignment of funds is not required to be the government's highest level of decision making authority. Furthermore, the constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on committed fund balances. The City Council may authorize executive officers to assign fund balances for specific purposes through Council ordinances and resolutions.

Unassigned – includes amounts that are not assigned to other funds and do not meet the criteria for being classified as restricted, committed, or assigned. Fund balances that can be utilized for economic stabilization, emergencies and contingencies that do not qualify as restricted or committed are reported as unassigned.

	<b>General Fund</b>	<b>Other Funds</b>	<b>Total</b>
Fund balances:			
<b>Nonspendable:</b>			
Inventory	\$ 30,279	\$ -	\$ 30,279
<b>Restricted for:</b>			
Tourism promotion & facilities	-	438,731	438,731
Community development block grant	-	42,107	42,107
Public safety	-	394,321	394,321
Public Access Television	-	190,796	190,796
Debt service	-	99,354	99,354
Capital projects	117,097	5,212,705	5,329,802
<b>Committed to:</b>			
Fund balance stabilization	1,298,268	-	1,298,268
Employee Wellness	-	3,948	3,948
Parks	-	25,694	25,694
Public Access Television	-	495,706	495,706
Public safety	-	44,074	44,074
Public art	-	29,263	29,263
Transportation Capital	-	658,372	658,372
Other	-	12,510	12,510
<b>Assigned to:</b>			
Street Operations	-	776,300	776,300
Tourism promotion & facilities	-	35,929	35,929
Parking System	-	836,009	836,009
Building Abatement	-	284,278	284,278
Court Improvement	-	7,373	7,373
Debt Service	-	310,469	310,469
Transportation Capital	-	291,692	291,692
Capital Improvements	-	206,589	206,589
<b>Unassigned:</b>	10,886,312	-	10,886,312
Total Fund Balances	\$ 12,331,956	\$ 10,396,220	\$ 22,728,176

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. The City's Financial Goals and Policies call for unrestricted resources to be reduced in the following order when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used: committed amounts are reduced first, followed by assigned amounts, and then unassigned.

A minimum fund balance policy has been established by the City Council that establishes target year end operating cash and investment balances as a percentage of budgeted operating expenditures for the City's General, Water, Wastewater, Stormwater and Golf Course funds. The following table shows the status at December 31, 2018.

<b>Fund</b>	<b>Target Rate</b>	<b>Target Balance</b>	<b>Balance 12/31/2018</b>
General	8.5%	\$ 3,227,755	\$ 12,331,956
Water	12%	\$ 1,689,891	9,666,701
Wastewater	12%	\$ 1,754,113	14,146,146
Stormwater	12%	\$ 366,402	4,531,695
Golf Course	12%	\$ 506,100	456,878

A contingency reserve fund, for the purposes of economic stabilization, was created by the City Council to protect the City's General Fund in the event of unforeseen and unfunded emergency requirements. The target fund balance is set at 0.375/\$1,000 of assessed valuation. The proceeds of sale of all General Fund real property are committed to this purpose. Funds are to be expended, with the unanimous vote of the City Council, only in the event of a bona fide emergency defined as a significant crisis threatening the financial viability of the City. If the balance of the fund is less than the target amount a repayment plan shall be established to replenish the fund to its minimum level. Balances in excess of the stated amount can be used for capital purposes upon City Council approval by simple majority vote. For 2018 the target fund balance of the contingency reserve fund is \$1,298,268. At 12/31/18 the balance was \$1,298,268.

## 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 position

The governmental fund balance sheet includes reconciliation between total fund balance and total net position as reported in the government-wide statement of net position. 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:

<b>Capital Assets of governmental funds net of depreciation</b>	<b>\$ 118,540,391</b>
<b>Net adjustment to increase fund balance - total governmental funds to arrive at net position of governmental activities</b>	<b>\$ 118,540,391</b>

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

<b>Deferred revenue for taxes and receivables due beyond the city's 30 day measurable and available period</b>	<b>\$ 3,863,422</b>
<b>Investment interest accrued beyond the city's 30 day measurable and available period</b>	<b>40,064</b>
<b>Due from other governments beyond the city's 30 day measurable and available period</b>	<b>39,471</b>
<b>Net Pension Asset</b>	<b>10,769,368</b>
<b>Deferred Pension Outflows</b>	<b>1,838,307</b>
<b>Deferred OPEB Outflows</b>	<b>435,156</b>
<b>Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities</b>	<b>\$ 16,985,786</b>

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

Net position of Internal service funds included in governmental activities	\$ 2,651,468
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	\$ 2,651,468

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	\$ (27,750,000)
Less: Issuance premiums	(858,768)
Add: Deferred amount on refunding	745,531
Accrued interest payable	(220,287)
Compensated absences	(2,276,899)
Net Pension Liability	(4,099,197)
Deferred Pension Inflow	(4,613,698)
Other Post Employment Benefits	(35,765,404)
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	\$ (74,838,722)

**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 position 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	\$ 6,172,520
Depreciation	(4,363,623)
Net adjustment to increase net change in fund balances - governmental funds to arrive at change in net position - governmental activities	\$ 1,808,897

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	\$ 1,770,000
Deferred Amount on Refunding	(74,859)
Amortized Premium	83,552
Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net position of governmental activities	\$ 1,778,693



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	\$ 12,583
Change in other receivables	(78,866)
Change in Pension Expense GASB 68	2,346,258
Change in other post-employment benefits payable	(28,850,293)
Change in accrued interest payable	8,750
Change in compensated absences payable	19,998
Transfer of capital assets to Utilities	(3,291,600)
Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net position of governmental funds	<u>\$ (29,833,170)</u>

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

Net revenue of risk management activities	\$ 882,217
Net revenue of self insurance activities	37,146
Net revenue of employment security activities	(237,624)
Net revenue of accrued leave activities	160,980
Net revenue of information technology activities	109,831
Net revenue of equipment maintenance activities	20,366
Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net position of governmental funds	<u>\$ 972,916</u>

#### C. Explanation of aggregated differences between the proprietary fund statement of net position and the government-wide statement of net position

The proprietary funds statement of net position includes reconciliation between total net position and total net position as reported in the government-wide statement of net position. The net position of the Equipment Rental Reserve internal service fund activity is proprietary in nature and is included in the net position of the government-wide statements.

Net position of Equipment Rental Reserve fund included in business activities	\$ 10,758,939
Net adjustment to increase net position - total proprietary funds to arrive at net position - business activities	<u>\$ 10,758,939</u>

#### D. Explanation of aggregated differences between the proprietary fund statement of revenues, expenditures, and changes in net position and the government-wide statement of activities

The proprietary fund statement of revenues, expenditures, and changes in net position includes reconciliation between change in net position and change in net position of business activities as reported in the government-wide statement of activities. The net revenue of the Equipment Rental Reserve internal service fund activity is proprietary in nature and is included in the change in net position in the government-wide statements.

Net revenue of equipment rental reserve activities	1,340,179
Net adjustment to decrease net change in net position - proprietary funds to arrive at change in net position of business activities	<u>\$ 1,340,179</u>



### 3. Deposits and Investments

#### A. Deposits

The City's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

#### 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 position at cost.

##### Cash & Cash Equivalents

Cash on hand	6,632,907
<b>Total Cash &amp; Cash Equivalents</b>	<b>\$ 6,632,907</b>

Investment Type	Investment Maturity (in Years)				Percent of Total
	Fair Value	<12 Months	13-24 Months	>25Months	
Federal National Mortgage Association	\$ 10,965,610	\$ 4,981,870	\$ 1,974,400	4,009,340	21.8%
Federal Home Loan Bank	6,933,590	4,950,690	1,982,900	0	13.8%
Federal Farm Credit Bank	6,012,480	1,976,700	0	4,035,780	12.0%
State Treasurer's Investment Pool	18,445,072	18,445,072	0	0	36.7%
US Treasury	7,921,260	1,994,380	5,926,880	0	15.8%
<b>Total</b>	<b>\$ 50,278,012</b>	<b>\$ 32,348,712</b>	<b>\$ 9,884,180</b>	<b>\$ 8,045,120</b>	<b>100.0%</b>

##### Total Cash and Investments

**\$ 56,910,919**

*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.

Investment Type	Investment Maturity (in Years)				
	Fair Value	AAA/Aaa (2)	AA/Aa (2)	A (2)	Unrated
Federal Agency Obligations	\$ 23,911,680	\$ 23,911,680	\$ -	\$ -	\$ -
State Treasurer's Investment Pool	18,445,072	-	-	-	18,445,072
US Treasury	7,921,260	7,921,260	-	-	-
Bank Deposits	6,632,907	-	-	-	6,632,907
<b>Total</b>	<b>\$ 56,910,919</b>	<b>\$ 31,832,940</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 25,077,979</b>

(1) Fair Value includes accrued interest

(2) Rating agencies: Moody's AAA, AA, A; S&P Aaa, A

(3) Measured at amortized cost

*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 AA+ 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.* The City's investment policy states 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. At 12/31/16 the portfolio was in compliance with this policy.

Local Government Investment Pool	32%
Federal National Mortgage Association	19%
Federal Home Loan Bank	12%
Federal Farm Credit Bank	11%
US Treasury	14%

*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.

#### Investments Measured at Fair Value

The City measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 – Unobservable inputs for an asset or liability

Investments measured at Fair Value Level	Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3
Federal Agency Obligations	\$ 23,911,680	\$ -	\$ 23,911,680	\$ -
US Treasury	7,921,260	7,921,260	-	-
<b>Total</b>	<b>\$31,832,940</b>	<b>\$ 7,921,260</b>	<b>\$23,911,680</b>	<b>\$ -</b>

#### Investments Measured at Amortized Cost

The Washington State Local Investment Pool (LGIP) is an unrated 2a-7 like pool, as defined by GASB 31, and therefore is not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. The balance of the LGIP is not subject to custodial risk since all the investments or deposits held by the LGIP are either insured or held by a third-party custody provider in the LGIP's name. The City may withdraw its participation for the same or next day settlement.

<b>Investments measured at amortized cost</b>	
WA State LGIP	\$ 18,445,072
Bank Deposits	6,632,907
<b>Total</b>	<b>\$25,077,979</b>

#### **4. 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.

##### **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 inflow of resources 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 41.16.060 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 2018, the Kitsap Regional Library District levied \$0.43 per \$1,000 of assessed valuation, and therefore the City's maximum levy rate is \$3.17 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 2018 was \$2.41 per \$1,000 on an assessed valuation of \$3.073 billion, for a total regular levy of \$7,400,990.

Special levies, approved by the voters are not subject to the above limitations. In 2018, the City levied an additional \$0.86 per \$1,000 for General Obligation Bonds and Emergency Medical Services, for a total additional levy of \$2,627,714.

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.

## 5. Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

<b>Governmental Activities</b>	<b>Beginning Balance 1/1/2018</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance 12/31/2018</b>
Capital assets, not being depreciated:				
Land	\$ 20,081,611	\$ -	\$ 9,054	\$ 20,072,557
Construction in progress	11,669,147	6,172,519	13,559,754	4,281,912
Intangibles	4,500	-	-	4,500
Total capital assets, not being depreciated	31,755,258	6,172,519	13,568,808	24,358,969
Capital assets, being depreciated:				
Buildings/building improvements	63,030,963	-	-	63,030,963
Improvements other than buildings	21,136,991	48,628	48,628	21,136,991
Machinery and equipment	9,778,042	2,985,442	745,797	12,017,687
Infrastructure	57,695,934	9,335,790	1,828,482	65,203,242
Total capital assets, being depreciated	151,641,930	12,369,860	2,622,907	161,388,883
Less accumulated depreciation for:				
Buildings/buildings improvements	16,302,605	1,287,015	-	17,589,620
Improvements other than buildings	12,689,439	720,445	-	13,409,884
Machinery and equipment	7,206,190	308,265	520,432	6,994,023
Infrastructure	27,105,311	2,060,042	-	29,165,353
Total accumulated depreciation	63,303,545	4,375,767	520,432	67,158,880
Total capital assets, being depreciated, net	88,338,385	7,994,093	2,102,475	94,230,003
Governmental activities capital assets, net	\$ 120,093,643	\$ 14,166,612	\$ 15,671,283	\$ 118,588,972

<b>Business-type Activities</b>	<b>Beginning Balance 1/1/2018</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance 12/31/2018</b>
Capital assets, not being depreciated:				
Land	\$ 9,748,905	\$ 132,829	\$ -	\$ 9,881,734
Construction in progress	4,492,249	11,866,548	11,657,147	4,701,650
Intangibles	78,781	39,124	-	117,905
Total capital assets, not being depreciated	14,319,935	12,038,501	11,657,147	14,701,289
Capital assets, being depreciated:				
Buildings/building improvements	59,002,772	637,863	129,683	59,510,952
Intangibles	2,407,214	-	-	2,407,214
Improvements other than buildings	152,497,986	7,641,817	39,288	160,100,515
Machinery and equipment	69,658,367	3,976,967	974,660	72,660,674
Total capital assets, being depreciated	283,566,339	12,256,647	1,143,631	294,679,355
Less accumulated depreciation for:				
Buildings/buildings improvements	24,030,843	1,123,974	-	25,154,817
Intangibles	2,272,404	9,242	-	2,281,646
Improvements other than buildings	54,702,566	2,954,634	15,538	57,641,662
Machinery and equipment	33,316,292	3,041,839	633,006	35,725,125
Total accumulated depreciation	114,322,105	7,129,689	648,544	120,803,250
Total capital assets, being depreciated, net	169,244,234	5,126,958	495,087	173,876,105
Business-type activities Capital assets, net	\$ 183,564,169	\$ 17,165,459	\$ 12,152,234	188,577,394

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

**Governmental Activities:**

General government	\$ 204,188
Public safety	396,535
Transportation, including depreciation of general infrastructure assets	2,200,610
Economic environment	348
Culture and recreation	1,561,941
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	12,145
<b>Total depreciation expense - Governmental activities</b>	<b>\$ 4,375,767</b>

**Business-type activities:**

Water	\$ 2,496,198
Wastewater	161,829
Stormwater	3,626,201
Golf	149,108
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	696,353
<b>Total depreciation expense - Business-type activities</b>	<b>\$ 7,129,689</b>

## 6. Construction Commitments

At December 31, 2018, the City had several construction projects underway. The following table contains the projects and status at year end.

<b>Project</b>	<b>Spent to Date</b>	<b>Remaining Commitment</b>
ESTP Outfall Replacement Project	211,460	23,594
WWTP Sewer Interceptor Upgrades	217,918	101,508
HIS Phase II & PSNS Safety Project	1,375,380	243,915
Admin of US EPA Brownfields Grant	90,602	95,099
Pavement Mgmt Prog & Sidewalk Assess	55,281	13,675
Sewage PS CW4 Upgrade & OF-12 Mod	89,256	121,742
Modified Clean-up of Small Arms Range	125,431	26,480
Design of Safe Routes to School Project	234,866	161,927
Exterior Coating Replacement of Res 17 & 20	592,727	34,597
Eastside Treatment Plant Outfall Replacement	1,187,135	649,515
2018 Sewer Rehabilitation Project	789,438	74,963
WWTP Interceptor Upgrades Project	1,278,190	468,862
Quincy Square on 4th Street	56,424	438,576
Remodel FS 2 & 3	-	69,445
Ostrich Creek Culvert Replacements	23,986	397,414
	<b>\$ 6,328,094</b>	<b>\$ 2,921,312</b>

## 7. Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions for the year 2018:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (7,720,865)
Pension assets	\$ 10,769,368
Deferred outflows of resources	\$ 2,569,432
Deferred inflows of resources	\$ (5,912,789)
Pension expense/expenditures	\$ (163,346)

### State Sponsored 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 state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

### Public Employees' Retirement System (PERS)

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

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

#### Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:



<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
January - August 2018:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.70%</b>	<b>6.00%</b>
September - December 2018:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.73%</b>	<b>6.00%</b>

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

The city's actual contributions to the plan were \$834,881 for the year ended December 31, 2018.

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

#### Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
January - August 2018:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
<b>Total</b>	<b>12.70%</b>	<b>7.38%</b>
September - December 2018:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
<b>Total</b>	<b>12.83%</b>	<b>7.41%</b>

\* For employees participating in JBM, the contribution rate was 18.45% for January through August 2018 and 18.53% for September through December 2018.

The city's actual contributions to the plan were \$1,140,802 for the year ended December 31, 2018.

#### **Public Safety Employees' Retirement System (PSERS)**

PSERS Plan 2 was created by the 2004 Legislature and became effective July 1, 2006. To be eligible for membership, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS membership includes:

- PERS 2 or 3 employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30 2006; and
- Employees hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

PSERS covered employers include:

- Certain State of Washington agencies (Department of Corrections, Department of Natural Resources, Gambling commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol),
- Washington State Counties,
- Washington State Cities (except for Seattle, Spokane, and Tacoma),
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

PSERS Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. 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). There is no cap on years of service credit. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Retirement before age 60 is considered an early retirement. PSERS 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 three percent per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PSERS Plan 2 members are vested after completing five years of eligible service.

#### Contributions

The **PSERS Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates.

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2018 were as follows:

<b>PSERS Plan 2</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
<b>January - August 2018:</b>		
PSERS Plan 2	6.74%	6.74%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
<b>Total</b>	<b>11.95%</b>	<b>6.74%</b>
<b>September - December 2018:</b>		
PSERS Plan 2	7.07%	7.07%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.38%</b>	<b>7.07%</b>

The city's actual contributions to the plan were \$13,202 for the year ended December 31, 2018.

#### **Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)**

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

**LEOFF Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

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 ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

### Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2018. Employers paid only the administrative expense of 0.18 percent of covered payroll.

**LEOFF Plan 2** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. 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. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

### Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

<b>LEOFF Plan 2</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.43%</b>	<b>8.75%</b>
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
<b>Total</b>	<b>8.93%</b>	<b>8.75%</b>

The city's actual contributions to the plan were \$647,179 for the year ended December 31, 2018.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2018, the state contributed \$68,152,127 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$4,857,233.

### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2017. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

- **Investment rate of return:** 7.4%

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

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

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems except LEOFF 2. For LEOFF 2 the valuation interest rate was lowered from 7.50% to 7.40%.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.
- Modified how the valuation software calculates benefits paid to remarried duty-related death survivors of LEOFF 2 members.
- Updated the trend that the valuation software uses to project medical inflation for LEOFF 2 survivors of a duty-related death, and for certain LEOFF 2 medical-related duty disability benefits.

### Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

### Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

### Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	<b>100%</b>	

### Sensitivity of Net Pension Liability

The table below presents the city's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
PERS 1	\$ 6,560,102	\$ 5,338,027	\$ 4,279,464
PERS 2/3	\$ 10,896,381	\$ 2,382,231	\$ (4,598,421)
PSERS 2	\$ 62,906	\$ 606	\$ (48,280)
LEOFF 1	\$ (2,599,464)	\$ (3,267,631)	\$ (3,842,885)
LEOFF 2	\$ (997,591)	\$ (7,501,737)	\$ (12,806,624)

### Pension Plan Fiduciary Net Position

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

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

At June 30, 2018, the City reported a net pension liability of \$7,720,864 and a net pension asset of \$10,769,368 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 5,338,027
PERS 2/3	\$ 2,382,231
PSERS 2	\$ 606
LEOFF 1	\$ (3,267,631)
LEOFF 2	\$ (7,501,737)

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the city. The amount recognized by the city as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the city were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	\$ (3,267,631)	\$ (7,501,737)
State's proportionate share of the net pension asset associated with the employer	\$ (22,102,177)	\$ (4,857,233)
TOTAL	\$ (25,369,808)	\$ (12,358,970)

At June 30, 2018 the city's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.1131%	0.1195%	0.0064%
PERS 2/3	0.1311%	0.1395%	0.0084%
PSERS 2	0.0503%	0.0489%	-0.0014%
LEOFF 1	0.1759%	0.1799%	0.0040%
LEOFF 2	0.3636%	0.3695%	0.0059%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2018. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2018, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2018, the state of Washington contributed 39.30 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.70 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

### Pension Expense

For the year ended December 31, 2018, the city recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 782,578
PERS 2/3	\$ (120,184)
PSERS	\$ 10,327
LEOFF 1	\$ (581,275)
LEOFF 2	\$ (254,791)
TOTAL	\$ (163,346)

### Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (212,130)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ 431,187	\$ -
<b>TOTAL</b>	<b>431,187</b>	<b>(212,130)</b>

<b>PERS 2-3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 291,999	\$ (417,085)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (1,461,847)
Changes of assumptions	\$ 27,868	\$ (677,964)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 298,629	\$ (219,386)
Contributions subsequent to the measurement date	\$ 589,349	\$ -
<b>TOTAL</b>	<b>1,207,845</b>	<b>(2,776,282)</b>

<b>PSERS</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 4,491	\$ (621)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (8,165)
Changes of assumptions	\$ 65	\$ (3,747)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 1,535	\$ (483)
Contributions subsequent to the measurement date	\$ 6,713	\$ -
<b>TOTAL</b>	<b>12,804</b>	<b>(13,016)</b>

<b>LEOFF 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (265,284)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ -	\$ -
<b>TOTAL</b>	<b>-</b>	<b>(265,284)</b>

<b>LEOFF 2</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 401,853	\$ (174,191)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (1,312,905)
Changes of assumptions	\$ 4,246	\$ (1,076,635)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 184,042	\$ (82,347)
Contributions subsequent to the measurement date	\$ 327,454	\$ -
<b>TOTAL</b>	<b>917,595</b>	<b>(2,646,078)</b>

Deferred outflows of resources related to pensions resulting from the city's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>PERS 1</b>
2019	\$ 9,281
2020	\$ (46,373)
2021	\$ (139,152)
2022	\$ (35,886)
<b>Total</b>	<b>\$ (212,130)</b>

<b>Year ended December 31:</b>	<b><i>PERS 2/3</i></b>
2019	\$ (288,446)
2020	\$ (474,286)
2021	\$ (866,452)
2022	\$ (303,013)
2023	\$ (94,310)
Thereafter	\$ (131,279)
Total	\$ (2,157,786)

<b>Year ended December 31:</b>	<b><i>PSERS</i></b>
2019	\$ (83)
2020	\$ (957)
2021	\$ (2,692)
2022	\$ (1,311)
2023	\$ (248)
Thereafter	\$ (1,633)
Total	\$ (6,925)

<b>Year ended December 31:</b>	<b><i>LEOFF 1</i></b>
2019	\$ 253
2020	\$ (59,846)
2021	\$ (162,996)
2022	\$ (42,696)
Thereafter	
Total	\$ (265,284)

<b>Year ended December 31:</b>	<b><i>LEOFF 2</i></b>
2019	\$ (136,741)
2020	\$ (335,522)
2021	\$ (747,571)
2022	\$ (287,162)
2023	\$ (101,031)
Thereafter	\$ (447,908)
Total	\$ (2,055,936)



## 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 2018 insurance coverage and risk retention:

Risk	Coverage Limit Per Occurrence	Self-Insured Retention	Insurer
Excess liability	\$10,000,000	\$500,000	Lexington Insurance Company
Excess workers' compensation	Statutory	500,000	Midwest Employers Casualty Company
Blanket property	100,000,000	100,000	Lexington 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, 2018, the Risk Management Fund had cash and investment reserves of \$2,804,250. The Statement of Net Position for the Risk Management fund includes the unspent portion of this amount in prepayments. Long-term fund liabilities have been estimated at \$797,744. 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 \$354,514

The following table shows the actual claims activity for 2017 and 2018:

	2017	2018
Claims liability - beginning of year	\$ 1,698,748	\$ 1,772,572
Claims incurred	852,698	298,647
Estimate change prior years	0	(468,872)
Payment on claims	(778,874)	(255,113)
Claims liability - end of year	\$ 1,772,572	\$ 1,347,234

## 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 in prior years to advance refund G.O. bonds. General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources. The revenue bonds are repaid with proprietary fund revenues.

General obligation bonds currently outstanding are as follows:

	Maturity Date	Interest Rate	Outstanding 12/31/2018
LTGO 2010 BABS	9/1/2035	3.6125	\$ 5,250,000
2010 UTGO Refunding	12/1/2027	3.4191	6,405,000
2015 UTGO Fire Bonds	12/1/2025		3,030,000
2010 LTGO (B) BABS	12/1/1930	3.0664	1,600,000
2012 LTGO REFUNDING - GOVT CENTER	7/1/2034	2.7954	4,110,000
2013 LTGOA Refunding - Conf Ctr Pkg	12/1/2036	3.0082	7,355,000
2013 LTGOB Refunding - Golf Course	12/1/2028	3.0082	3,610,000
Total General Obligation Bonds and Notes			<u>\$ 31,360,000</u>

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

Year Ending December 31	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2019	1,820,000	1,123,837	320,000	116,230
2020	1,880,000	1,068,794	325,000	109,670
2021	1,940,000	1,008,751	330,000	102,195
2022	2,010,000	942,069	340,000	93,450
2023	2,105,000	864,009	350,000	83,590
2024-2028	9,380,000	3,035,760	1,945,000	228,975
2028-2033	5,860,000	1,397,362	-	-
2034-2036	2,755,000	208,299	-	-
Total	<u>\$ 27,750,000</u>	<u>\$ 9,648,882</u>	<u>\$ 3,610,000</u>	<u>\$ 734,110</u>

The revenue bonds and revenue loans currently outstanding are as follows:

	Maturity Date	Interest Rate	Outstanding 12/31/2018
W/S REF & REVENUE BOND 2007	12/1/2021	4.28	1,300,000
W/S REF & REVENUE BOND 2014	12/1/2034	3.85	1,680,000
W/S REF & REVENUE BOND 2014	12/1/2034	3.85	4,205,000
W/S REF & REVENUE BOND 2016	12/1/2035	2.51	2,781,769
W/S REF & REVENUE BOND 2016	12/1/2035	2.51	2,739,632
W/S REF & REVENUE BOND 2016	12/1/2035	2.51	1,743,600
PWTF SR 303 WATER MAIN	7/1/2018	1.00	-
PWTF CSO REDUCTION DESIGN	7/1/2020	1.00	48,793
PWTF EAST BREMERTON CSO	7/1/2021	0.50	475,000
PWTF MULTI BASIN CSO	7/1/2020	1.00	298,652
PWTF CALLOW CSO PRI. 3 / 5	7/1/2020	1.00	446,859
PWTF ANDERSON COVE BASIN 12	7/1/2023	0.50	144,245
PWTF NAVAL AVE	7/1/2023	4.00	65,790
PWTF BRENTWOOD STORM DRAIN REPA	7/1/2024	4.00	59,185
PWTF PACIFIC AVE BASIN CSO	7/1/2024	0.50	419,864
PWTF TRACYTON WATER SYS PH 2	7/1/2019	2.00	9,907
PWTF WWTP UPGRADE	7/1/2025	0.50	74,708
PWTF ANDERSON COVE SEW PS CW1	7/1/2027	0.50	319,737
PWTF WWTP UPGRADES	7/1/2027	0.50	1,466,643
CCWF CALLOW CSO PRIORITY I PH 1	7/31/2018	4.80	-
DWSRF CORROSION CONTROL	10/1/2018	4.00	-
DWSRF CASAD DAM VALVE REPL	10/1/2023	1.50	22,004
DWSRF EASTSIDE FLOW & PRESSURE IMP	10/1/2022	2.50	244,081
DWSRF SEISMIC UPGRADE	10/1/2022	2.50	157,103
DWSRF ANDERSON CREEK	10/1/2024	1.50	32,291
DWSRF PUMP STATION 4 UPGRADE	10/1/2023	1.50	288,056
DWSRF SEISMIC UPGRADES	10/1/2024	1.50	169,790
DWSRF TRACYTON WD UPGRADE	10/1/2021	2.50	418,747
DWSRF SEISMIC VALVE FLOW CONTROL	12/1/2036	1.00	821,307
DWSRF RESERVOIR 4 COVER	10/1/2024		1,658,612
WPCRF CSO PLAN UPDATE	12/31/2022	1.50	57,771
WPCRF ANDERSON COVE CSO	2/27/2021	1.50	139,223
WPCRF CALLOW DESIGN FINAL	12/31/2022	1.50	133,605
WPCRF ANDERSON COVE CSO	1/23/2022	1.50	129,035
WPCRF TRENTON/CHERRY	10/15/2024	1.50	348,005
WPCRF ANDERSON COVE BASIN 12	9/17/2026	1.50	119,388
WPCRF TRENTON PUMP STATION	10/15/2024	1.50	347,780
WPCRF TRACYTON BEACH CSO	2/9/2025	1.50	218,633
WPCRF PACIFIC AVE CSO RED - SEP	6/30/2024	1.50	134,014
WPCRF PACIFIC AVE CSO REDUCTION	12/31/2027	1.50	534,551
WPCRF CHERRY/TRENTON CSO RED -F	12/31/2026	1.50	491,004
WPCRF WWTP UPGRADE	1/1/2029	2.60	382,295
WPCRF GORST SEWERAGE CONSTR	12/31/2030	1.40	389,528
WPCRF GORST SEWERAGE CONSTR	10/17/2032	1.40	39,906
WPCRF GORST SEPTIC SYSTEM DES	12/31/2030	2.90	77,802
WPCRF GORST SEWERAGE DESIGN	12/31/2030	1.40	375,253
Total Revenue Bonds and Loans			26,009,165

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

Year Ending December 31	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2019	\$ -	\$ -	\$ 2,976,456	\$ 889,352
2020	-	-	2,954,681	815,388
2021	-	-	2,602,935	744,559
2022	-	-	1,825,319	677,847
2023	-	-	1,683,623	612,808
2024-2028	-	-	6,891,840	2,100,545
2029-2033	-	-	5,422,903	914,222
2034-2035	-	-	1,651,408	87,571
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 26,009,165</b>	<b>\$ 6,842,292</b>

In proprietary funds bonds are displayed net of premium or discount. Annual interest expense is decreased by amortization of debt premium and increased by the discount.

At December 31, 2018, the city has \$409,822 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$1,592,066 in sinking funds and reserves as required by bond indentures.

#### **B. Refunded Debt**

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, 2018 there were no defeased bonds outstanding

## 10. Changes in Long Term Liabilities

During the year ended December 31, 2018, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2018	Additions	Reductions	Ending Balance 12/31/2018	Due Within One Year
<b>Governmental Activities:</b>					
Bonds payable:					
General obligation bonds	\$ 29,520,000	\$ -	\$ 1,770,000	27,750,000	\$ 1,820,000
Notes Payable	-	-	-	-	-
Add unamortized premiums	942,319	-	83,552	858,767	-
Total bonds payable:	30,462,319	-	1,853,552	28,608,767	1,820,000
Claims and judgments	1,418,058	-	620,314	797,744	-
Compensated absences	2,340,901	-	13,866	2,327,035	-
Other Post Employment Benefits*	37,267,252	-	1,501,848	35,765,404	-
Pension Liability	5,313,696	-	1,076,466	4,237,230	-
Governmental activity long-term liabilities:	\$ 76,802,226	\$ -	\$ 5,066,046	\$ 71,736,180	\$ 1,820,000
<b>Business-type Activities:</b>					
Bonds payable:					
General obligation bonds	\$ 3,925,000	\$ -	\$ 315,000	\$ 3,610,000	\$ 320,000
Revenue bonds	15,440,000	-	990,000	14,450,000	1,025,000
Add unamortized premiums	1,414,745	-	80,520	1,334,225	-
Total bonds payable:	20,779,745	-	1,385,520	19,394,225	1,345,000
Intergovernmental loans	13,834,640	92,881	2,368,356	11,559,165	1,951,455
Compensated Absences	743,884	-	341,741	402,143	-
Pension Liability	4,618,132	-	1,134,497	3,483,635	-
Business-type activity long-term liabilities:	\$ 39,976,401	\$ 92,881	\$ 5,230,114	\$ 34,839,168	\$ 3,296,455

\* Beginning Balance has been restated due to the implementation of GASB 75.

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 \$797,744 of Risk Management claims and judgments and \$18,711 of compensated absences are included in the above governmental activities amounts. Compensated absences are liquidated by the Accrued Leave Liability internal service fund and claims and judgments are liquidated by the Risk Management internal service fund. Pension liabilities are liquidated by the governmental and proprietary funds in which the activities and obligations were incurred. All OPEB liabilities are liquidated by the general fund.

## 11. Contingencies and Litigation

As of December 31, 2018, there were a small number of claims for damages and lawsuits pending against the City. In the opinion of the City's legal counsel, neither the potential liability for any single claim or lawsuit, nor the aggregate potential liability arising from all actions currently pending would materially affect the financial condition of the City.

As discussed in Note 9, Long-Term Debt, the City is contingently liable for repayment of refunded debt.

The City participates in a number of federal and state assistance 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.

## 12. Restricted Net Position

The government-wide statement of net position reports \$8,608,994 of restricted net position, all of which is restricted by enabling legislation and external contractual commitments.

## 13. Interfund Balances and Transfers

### A. Interfund Balances

Interfund balances at December 31, 2018, were as follows:

		Due From						
Due To		General Fund	Other Govt	Water	Waste-Water	Storm-Water	Internal Service	Total
	General Fund	\$ 275,791	\$ 95,437	\$ 169,233	\$ 318,439	\$ 17,171	\$ 98,655	\$ 974,727
	Other governmental funds	4,921	358,292	-	-	68,684	-	431,897
	Water	35,786	-	-	49,768	-	-	85,554
	Wastewater	44,233	-	1,050	-	-	8,038	53,320
	Stormwater	48,724	-	-	-	102,906	-	151,630
	Internal Service	910,422	347,157	37,667	77,988	1,310	2,842	1,377,388
	<b>Total</b>	<b>\$ 1,319,877</b>	<b>\$ 800,886</b>	<b>\$ 207,950</b>	<b>\$ 446,195</b>	<b>\$ 190,071</b>	<b>\$ 109,535</b>	<b>\$ 3,074,516</b>

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 2019. 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.

		Yr of final Payment	Loaned To	
Loaned From	Purpose		General Fund	Total
Internal service	Conference Ctr Exp	2034	385,722	385,722
	<b>Total</b>		<b>\$ 385,722</b>	<b>\$ 385,722</b>

### B. Interfund Transfers

Interfund transfers at December 31, 2018 were as follows:

		Transfer From				
Transfer To		General Fund	Other Govt	Storm-Water	Internal Service	Total
	General Fund	\$ 145,974	\$ 607,021	\$ -	\$ -	\$ 752,995
	Other governmental funds	1,091,931	\$ 2,238,189	26,667	-	\$ 3,356,787
	Water	-	69,538	-	-	\$ 69,538
	Wastewater	-	114,543	-	-	\$ 114,543
	Internal Service	350,000	-	-	250,000	\$ 600,000
	<b>Total</b>	<b>\$ 1,587,905</b>	<b>\$ 3,029,291</b>	<b>\$ 26,667</b>	<b>\$ 250,000</b>	<b>\$ 4,893,864</b>

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 no significant transfers in 2018.

## 14. Receivable and Payable Balances

### A. Receivables

Receivables at December 31, 2018, were as follows:

	Accounts	Taxes	Notes Contracts	Other	Total
<b>Governmental Activities:</b>					
General Fund	\$ 2,258,211	\$ 3,211,059	\$ 7,576	\$ -	\$ 5,476,846
Non-major and other funds	164,190	653,012	101,898	-	919,100
Reconciliation of balances in fund financial statements to government-wide financial statements	3,397	-	-	47,477	50,874
<b>Total governmental activities</b>	<b>\$ 2,425,798</b>	<b>\$ 3,864,071</b>	<b>\$ 109,474</b>	<b>\$ 47,477</b>	<b>\$ 6,446,820</b>
<b>Business-Type Activities:</b>					
Water	\$ 2,055,504	\$ -	\$ 42,758	\$ 15,315	\$ 2,113,577
Golf	133,027	-	-	1,172	134,199
Wastewater	2,591,115	22,364	-	23,821	2,637,300
Stormwater	646,520	-	-	7,564	654,084
Reconciliation of balances in fund financial statements to government-wide financial statements	-	-	-	6,601	6,601
<b>Total business-type activities</b>	<b>\$ 5,426,166</b>	<b>\$ 22,364</b>	<b>\$ 42,758</b>	<b>\$ 54,473</b>	<b>\$ 5,545,761</b>

### B. Payables

Accounts Payable, Other Accrued Liabilities, Due to Other Governments and Custodial Accounts at December 31, 2018 were as follows:

	Vendors	Retainage	Due to Other Governments	Other	Total
<b>Governmental Activities:</b>					
General Fund	\$ 782,740	\$ -	\$ 22,150	\$ 53,775	\$ 858,665
Non-major and other funds	522,959	59,029	-	15,000	596,988
Fiduciary funds	-	-	-	-	-
Reconciliation of balances in fund financial statements to government-wide financial statements	496,003	-	-	374,962	870,965
<b>Total governmental activities</b>	<b>\$ 1,801,702</b>	<b>\$ 59,029</b>	<b>\$ 22,150</b>	<b>\$ 443,737</b>	<b>\$ 2,326,618</b>
<b>Business-Type Activities:</b>					
Water	\$ 457,072	\$ 33,461	\$ -	\$ 89,160	\$ 579,693
Golf	173,502	-	34,572	126,613	334,687
Wastewater	930,317	30,292	-	61,631	1,022,240
Stormwater	65,663	-	-	6,946	72,609
Reconciliation of balances in fund financial statements to government-wide financial statements	5,323	-	-	-	5,323
<b>Total business-type activities</b>	<b>\$ 1,631,877</b>	<b>\$ 63,753</b>	<b>\$ 34,572</b>	<b>\$ 284,350</b>	<b>\$ 2,014,552</b>



## 15. Defined Benefit Other Postemployment Benefits (OPEB) Plans

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2018:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	\$ 35,765,404
Deferred outflows of resources	\$ 435,156
OPEB expenses/expenditures	\$ 235,959

### 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 single-employer defined benefit healthcare plan administered by the City. The eligible members are covered under LEOFF Plan 1. 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. Financial reporting for the LEOFF retiree healthcare plan is included in the City's Comprehensive Annual Financial Report.

### Employees Covered by Benefit Terms

At December 31, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	84
Inactive employees entitled to but not yet receiving benefits	0
Active employees	<u>0</u>
Total	84

### Contributions

The City paid \$987,234 in medical benefits for plan members during the year ended December 31, 2018.

### Funding Policy

Funding for LEOFF retiree healthcare costs is provided entirely by the City as required by RCW. The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust or otherwise set aside for the exclusive benefit of the participants.

### Actuarial Assumptions

The Total OPEB Liability (TOL) was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Methodology	
Actuarial Cost Method	Entry Age*
Assumptions	
Discount Rate <sup>1</sup>	



Beginning of measurement year	3.58%
End of measurement year	3.87%
<b>Health Care Trend Rates <sup>2</sup></b>	
Medical costs	Initial rate is approximately 12%, decreasing to about 5% in 2080 (assumes no excise tax)
Long-term care	4.50%
Medicare Part B premiums	Approximately 5%, varies by year
<b>Mortality rates (100% male population)</b>	
Base Mortality Table	RP-2000 Mortality Table
Age Setback	+1 year Healthy / -2 years Disabled Blended 50%/50% Healthy/Disabled
Mortality Improvements	100% Scale BB
Projection Period	Generational
<b>Medicare Participation Rate</b>	100%

- (1) Source: Bond Buyer General Obligation 20-Bond Municipal Index.
- (2) For additional detail on the healthcare trend rates, please see OSA's 2016 LEOFF Medical Benefits Actuarial Valuation Report.

The following presents the total OPEB Liability of the City calculated using the current healthcare cost trend rate of 12 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percent point lower (11 percent) or a 1-percent point higher (13 percent) than the current rate.

<b>Sensitivity Analysis – Healthcare Trend</b>			
	<b>1% Decrease</b> (11.00%)	<b>Current</b> (12.00%)	<b>1% Increase</b> (13.00%)
<b>Total OPEB Liability</b>	<b>\$32,494,055</b>	<b>\$35,765,404</b>	<b>\$39,538,532</b>

The following presents the total OPEB Liability of the City calculated using the discount rate of 3.87 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percent point lower (2.87 percent) or a 1-percent point higher (4.87 percent) than the current rate. A Discount Rate of 3.58% was used in the calculation of the Total OPEB liability, beginning. The end of year Discount Rate is being used in this analysis.

<b>Sensitivity Analysis – Discount Rate</b>			
	<b>1% Decrease</b> (2.87%)	<b>Current</b> (3.87%)	<b>1% Increase</b> (4.87)
<b>Total OPEB Liability</b>	<b>\$39,790,230</b>	<b>\$35,765,404</b>	<b>\$32,354,829</b>

The following table presents the changes in Total OPEB Liability:

<b>Changes in Total OPEB Liability</b>	
Total OPEB Liability as of January 1, 2018 <sup>1</sup>	\$37,267,252
Interest	\$1,303,334
Difference between Expected and Actual Experience and Changes in Assumptions	(\$1,067,375)
Benefit Payments	(\$1,737,807)
<b>Net Change in Total OPEB Liability</b>	<b>(\$1,501,848)</b>
<b>Total OPEB Liability at December 31, 2018</b>	<b>\$35,765,404</b>

- (1) The valuation date is prior to the City's reporting date, December 31, 2018. The balances have not been rolled forward to the reporting date.

As of the beginning of the fiscal year, the City's LEOFF I member count was below 100 members. The City utilized the alternative measurement method to calculate Total OPEB Liability. A measurement date of June 30, 2018 was used in the calculation of Total OPEB Liability and the Actuarial Measurement Date used was June 30, 2018.

For the year ended December 31, 2018, the City recognized OPEB expense of \$235,959. The City reported deferred outflows of resources related to OPEB from the following sources:

<b>LEOFF Plan 1</b>	<b>Deferred Outflows of Resources</b>
City contributions subsequent to the measurement date	\$ 435,156
<b>Total</b>	<b>\$ 435,156</b>

Deferred outflows of resources of \$435,156 related to OPEB benefits resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the Total OPEB Liability in the year ended December 31, 2019.

## 16. 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. Except for 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, 2018, for the combined utility operations of water, wastewater and stormwater funds presented on the proprietary fund statements are as follows:

<b>Condensed Statement of Net Position</b>	
<b>Assets and Deferred Outflows</b>	
Current assets	\$ 30,680,447
Restricted assets	1,592,066
Capital assets	175,978,244
Other assets	154,220
Total assets	208,404,977
Deferred outflows of resources	661,142
Total assets and deferred outflows	209,066,119
<b>Liabilities and Deferred Inflows</b>	
Current liabilities	5,359,719
Due to other funds	844,216
Long-term liabilities	28,252,712
Total liabilities	34,456,647
Deferred inflows of resources	1,139,910
Total liabilities and deferred inflows	35,596,557
<b>Net Position</b>	
Restricted for debt service	1,649,795
Unrestricted	23,184,911
Net investment in capital assets	148,634,855
Total net position	\$ 173,469,561

<b>Condensed Statement of Revenues, Expenses and Changes in Net Position</b>	
Total operating revenues	\$ 33,234,315
<b>Operating Expenditures:</b>	
Operating expenses	25,595,370
Depreciation/amortization/depletion	6,271,507
Total operating expenses	<u>31,866,877</u>
Operating income(loss)	1,367,438
<b>Non-Operating Revenues/Expenses</b>	
Interest revenue/expense (net)	(347,193)
Other (net)	391,558
Total non-operating revenues/expenses	<u>44,365</u>
Capital contributions	6,569,879
Transfers	157,414
Change in net position	8,139,096
Beginning net position	165,330,465
Ending net position	<u>\$ 173,469,561</u>

<b>Condensed Statement of Cash Flows</b>	
Net cash provided By:	
(a) Operating activities	\$ 8,715,993
(b) Noncapital financing activities	183,432
(c) Capital and related financing activities	(8,100,244)
(d) Investing activities	(1,425,859)
Beginning cash and equivalents balance	<u>11,305,958</u>
Ending cash and equivalents balance	<u>\$ 10,679,280</u>

## 17. Tax Abatements

The City established a Multi-Family tax exemption in 2008. The program allows developers to defer property taxes on improvements to the property for either an eight or 12-year period. To get the 12-year exemption the development would require 20% of the unit's rents be at low to moderate income levels. As of December 31, 2018, the City of Bremerton had one development receiving the eight-year exemption, 606 Apartments. The deferred taxes in 2018 are reported as \$91,441. The overall assessed value of the property in 2018 was \$6,989,930.

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bremerton  
Schedule of Proportionate Share of the Net Pension Liability  
PERS 1  
As of June 30, 2018  
Last 10 Fiscal Years\*

	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.11953%	0.11309%	0.11877%	0.12367%
Employer's proportionate share of the net pension liability	\$ 5,338,027	\$ 5,366,256	\$ 6,378,508	\$ 6,468,882
Employer's covered employee payroll	15,180,306	13,566,127	13,389,026	13,311,432
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	35.16%	39.56%	47.64%	48.60%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	61.24%	57.03%	59.10%

Notes to Schedule:

*\* This schedule is to be built prospectively until it contains ten years of data.*

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bremerton  
Schedule of Proportionate Share of the Net Pension Liability  
PERS 2/3  
As of June 30, 2018  
Last 10 Fiscal Years\*

	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.13952%	0.13112%	0.13515%	0.14288%
Employer's proportionate share of the net pension liability	\$ 2,382,231	\$ 4,555,724	\$ 6,804,696	\$ 5,105,327
Employer's covered employee payroll	14,715,110	12,854,513	12,623,875	12,565,311
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	16.19%	35.44%	53.90%	40.63%
Plan fiduciary net position as a percentage of the total pension liability	95.77%	90.97%	85.82%	89.20%

Notes to Schedule:

*\* This schedule is to be built prospectively until it contains ten years of data.*

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bremerton  
Schedule of Proportionate Share of the Net Pension Liability  
PSERS  
As of June 30, 2018  
Last 10 Fiscal Years\*

	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.04887%	0.05027%	0.04069%	0.04270%
Employer's proportionate share of the net pension liability	\$ 606	\$ 9,849	\$ 17,294	\$ 7,794
Employer's covered employee payroll	191,844	177,976	131,920	126,609
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	0.32%	5.53%	13.11%	6.16%
Plan fiduciary net position as a percentage of the total pension liability	99.79%	96.26%	90.41%	95.08%

Notes to Schedule:

*\* This schedule is to be built prospectively until it contains ten years of data.*

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bremerton  
Schedule of Proportionate Share of the Net Pension Liability  
LEOFF 1  
As of June 30, 2018  
Last 10 Fiscal Years\*

	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.17999%	0.17592%	0.17424%	0.17571%
Employer's proportionate share of the net pension asse	\$ (3,267,631)	\$ (2,669,093)	\$ (1,795,160)	\$ (2,117,718)
State's proportionate share of the net pension liability (asset) associated with the employer	\$ (22,102,177)	\$ (3,273,223)	\$ (1,437,670)	\$ (2,701,196)
TOTAL	\$ (25,369,808)	\$ (5,942,316)	\$ (3,642,932)	\$ (6,786,485)
Employer's covered employee payrol	-	99,976	126,465	122,729
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	0.00%	(2669.74%)	(1419.49%)	(1725.52%)
Plan fiduciary net position as a percentage of the total pension liability	144.42%	135.96%	123.74%	127.36%

Notes to Schedule:

*\* This schedule is to be built prospectively until it contains ten years of data.*

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bremerton  
Schedule of Proportionate Share of the Net Pension Liability  
LEOFF 2  
As of June 30, 2018  
Last 10 Fiscal Years\*

	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.36950%	0.36363%	0.37915%	0.39748%
Employer's proportionate share of the net pension asse	\$ (7,501,737)	\$ (5,045,965)	\$ (2,205,262)	\$ (4,085,289)
State's proportionate share of the net pension liability (asset) associated with the employer	\$ (4,857,233)	\$ (3,273,223)	\$ (1,437,670)	\$ (2,701,196)
TOTAL	\$ (12,358,970)	\$ (8,319,188)	\$ (3,642,932)	\$ (6,786,485)
Employer's covered employee payrol	12,297,035	11,374,905	11,486,092	11,496,279
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	-61.00%	(44.36%)	(19.20%)	(35.54%)
Plan fiduciary net position as a percentage of the total pension liability	118.50%	113.36%	106.04%	111.67%

Notes to Schedule:

\* This schedule is to be built prospectively until it contains ten years of data.



**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bremerton  
Schedule of Employer Contributions  
PERS 1  
As of December 31, 2018  
Last 10 Fiscal Years\*

	2018	2017	2016	2015
Contractually required contributions	\$ 834,881	\$ 751,960	\$ 663,672	\$ 620,110
Contributions in relation to the contractually required contributions	\$ 834,881	\$ 751,889	\$ 663,672	\$ 620,110
Contribution deficiency (excess)	0	71	0	0
Employer's covered employee payroll	15,660,667	14,680,139	13,155,996	12,333,775
Contributions as a percentage of covered employee payroll	5.33%	5.12%	5.04%	5.03%

Notes to Schedule:

*\* This schedule is to be built prospectively until it contains ten years of data.*

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bremerton  
Schedule of Employer Contributions  
PERS 2/3  
As of December 31, 2018  
Last 10 Fiscal Years\*

	2018	2017	2016	2015
Contractually required contributions	\$ 1,140,802	\$ 945,685	\$ 773,957	\$ 708,885
Contributions in relation to the contractually required contributions	\$ 1,140,802	\$ 945,761	\$ 773,957	\$ 708,885
Contribution deficiency (excess)	0	-75	0	0
Employer's covered employee payroll	15,214,007	13,965,767	12,423,072	12,713,675
Contributions as a percentage of covered employee payroll	7.50%	6.77%	6.23%	5.58%

Notes to Schedule:

*\* This schedule is to be built prospectively until it contains ten years of data.*

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bremerton  
Schedule of Employer Contributions  
PSERS  
As of December 31, 2018  
Last 10 Fiscal Years\*

	2018	2017	2016	2015
Contractually required contributions	\$ 13,202	\$ 12,572	\$ 10,081	\$ 8,196
Contributions in relation to the contractually required contributions	\$ 13,202	\$ 12,572	\$ 10,081	\$ 8,196
Contribution deficiency (excess)	0	0	0	0
Employer's covered employee payroll	193,520	189,011	152,968	126,758
Contributions as a percentage of covered employee payroll	6.82%	6.65%	6.59%	6.47%

Notes to Schedule:

*\* This schedule is to be built prospectively until it contains ten years of data.*

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bremerton  
Schedule of Employer Contributions  
LEOFF 2  
As of December 31, 2018  
Last 10 Fiscal Years\*

	2018	2017	2016	2015
Contractually required contributions	\$ 647,179	\$ 618,727	\$ 560,851	\$ 596,403
Contributions in relation to the contractually required contributions	\$ 647,179	\$ 618,726	\$ 560,851	\$ 596,403
Contribution deficiency (excess)	0	(1)	0	0
Employer's covered employee payroll	12,327,220	12,049,567	11,105,960	11,809,957
Contributions as a percentage of covered employee payroll	5.25%	5.13%	5.05%	5.05%

Notes to Schedule:

*\* This schedule is to be built prospectively until it contains ten years of data.*

City of Bremerton  
Schedule of Changes in Total OPEB Liability and Related Ratios  
LEOFF Plan 1  
For the year ended June 30, 2018  
Last 10 Fiscal Years\*

	<u>2018</u>
<b>Total OPEB liability - beginning</b>	\$ 37,267,252
Service cost	0
Interest	1,303,334
Changes in benefit terms	0
Differences between expected and actual experience and	
Changes of Assumptions	(1,067,375)
Benefit payments	(1,737,807)
Other changes	
<b>Total OPEB liability - ending</b>	<u><u>35,765,404</u></u>
<b>Covered-employee payroll</b>	0
<b>Total OPEB liability as a % of covered payroll</b>	N/A

**Notes to Schedule:**

\* Until a full 10-year trend is compiled, only information for those years available is presented.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

**City of Bremerton**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2018**

Federal Agency (Pass Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures					
				From Pass Through Awards	From Direct Awards	Total	Passed through to Subrecipients	Note	
Community Development Block Grant									
U.S Dept of HUD	Community Development Block Grant	14.218	B-15-MC-53-0011		1,312	1,312	\$	1,312.00	1, 2
U.S Dept of HUD	Community Development Block Grant	14.218	B-16-MC-53-0011		40,201	40,201		40,201.00	1, 2
U.S Dept of HUD	Community Development Block Grant	14.218	B-17-MC-53-0011		54,135	54,135		54,135.00	1, 2
U.S Dept of HUD	Community Development Block Grant	14.218	B-18-MC-53-0011		161,718	161,718		161,718.00	1, 2
U.S Dept of HUD	Community Development Block Grant	14.218	Program Income		32,482	32,482		32,482.00	1, 2
	Total Community Development Block Grants/Entitlement Cluster			-	289,848	289,848		289,848.00	
U.S. Dept of Justice	Edward Byrne Memorial Justice Assistance Grant	16.738	2017-DJ-BX-0388		22,211	22,211		-	1, 2
U.S. Dept of Justice	Bulletproof Vest Partnership Program	16.607	99002098		5,575	5,575		-	1, 2
	Total Edward Byrne Memorial Justice Assistance Grant			-	27,786	27,786		-	
Highway Planning and Construction Cluster									
Federal Highway Administration (via WA State DOT)	Highway Planning and Construction	20.205	HSIP-000S(433)/LA-8783	462,614		462,614		-	1, 2
Federal Highway Administration (via WA State DOT)	Highway Planning and Construction	20.205	SRTS-6590(002)/LA-9223	227,520		227,520		-	1, 2
Federal Highway Administration (via WA State DOT)	Highway Planning and Construction	20.205	HSIP-000S(459)/LA-9021	1,435,765		1,435,765		-	1, 2
	Total For Highway Planning and Construction Cluster:			2,125,899	-	2,125,899		-	
Federal Highway Administration (via WA Traffic Safety Committee)	State and Community Highway Safety	20.600	2018-HVE-2328	5,048		5,048	\$	-	1, 2
Federal Highway Administration (via WA Traffic Safety Committee)	State and Community Highway Safety	20.600	2019-HVE-314	1,098		1,098	\$	-	1, 2
	Total State and Community Highway Safety			\$ 6,146	\$ -	\$ 6,146	\$	-	

City of Bremerton  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2018

		Expenditures						
Federal Agency (Pass Through Agency)	Federal Program	CFDA Number	Other Award Number	From Pass Through Awards	From Direct Awards	Total	Passed through to Subrecipients	Note
Environmental Protection Agency	Brownfields Training, Research, and Technical Assi	66.814	01139801	-	79,901	79,901	-	1,2
Federal Emergency Management Agency (fema), Department of Homeland Security	Assistance to Fire Fighters Grant	97.044	EMW-2017-FO-0088	-	99,592	99,592	-	1,2
Total Federal Awards Expended:				2,132,045	497,127	2,629,172	289,848	

**City of Bremerton**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2018**

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the city financial statements. The city uses the accrual basis of accounting.

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. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect Cost Rate

The city has not elected to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.



## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>