

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

City of Bremerton
Kitsap County

Audit Period
January 1, 2011 through December 31, 2011

Report No. 1008451

Issue Date
September 26, 2012



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

September 26, 2012

Mayor and City Council
City of Bremerton
Bremerton, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Kitsap County
January 1, 2011 through December 31, 2011**

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Federal Summary

City of Bremerton Kitsap County January 1, 2011 through December 31, 2011

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

FINANCIAL STATEMENTS

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

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

- **Significant Deficiencies:** We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified deficiencies that we consider to be material weaknesses.

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

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

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
11.300	Economic Development Cluster – Investments for Public Works and Economic Development Facilities
14.218	CDBG – Entitlement Grants Cluster - Community Development Block Grants/Entitlement Grants
16.710	Public Safety Partnership and Community Policing Grants
16.710	ARRA - Public Safety Partnership and Community Policing Grants (Recovery Act)
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction
66.468	ARRA - Capitalization Grants for Drinking Water State Revolving Funds (Recovery Act)

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

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

Schedule of Federal Audit Findings and Questioned Costs

**City of Bremerton
Kitsap County
January 1, 2011 through December 31, 2011**

- 1. The City did not comply with federal Davis-Bacon (prevailing wage) requirements for its Investment in Public Works and Economic Development grant.**

CFDA Number and Title:	11.300 Investment in Public Works and Economic Development
Federal Grantor Name:	U.S. Department of Commerce
Federal Award/Contract Number:	07-01-06590
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

The City spent \$650,972 in federal grant money on the Park Plaza parking garage project in 2011.

For federally funded construction projects that exceed \$2,000, the Davis-Bacon Act requires contractors to pay federally prescribed prevailing wages to laborers. Grant recipients must include in construction contracts a provision stating the contractor and subcontractors must comply with the Davis-Bacon Act. The provision requires the contractor and subcontractors to submit to the grantee a weekly copy of payroll and a statement of compliance (certified payrolls).

During our audit, we found the City was not obtaining certified weekly payrolls. The City had a contract with a management company to oversee the project. The company obtained certified payrolls when reimbursement requests were completed, rather than weekly, and did not review them to ensure prevailing wage rates were paid. The City did not have an internal process to monitor the management company to ensure it collected certified payroll information.

Cause of Condition

The management company did not understand the Davis-Bacon Act requirements. The City relied on the company to comply with these requirements.

Effect of Condition and Questioned Costs

The City cannot ensure contractors and subcontractors paid proper prevailing wages to their employees in compliance with the law. This could result in underpayment of wages to laborers working on the project.

Recommendation

We recommend the City monitor the activities of consultants responsible for federal grant management to ensure compliance with Davis Bacon requirements.

City's Response

The City of Bremerton thanks the State Auditor's Office for bringing this matter to our attention. The City is also currently working with the Department of Labor and Industries regarding certified payroll issues on this project and had believed that the management company hired to perform this work was doing so. The City is working with the management company to correct this issue going forward for this project. In future, the City will insure that any outside consultant hired to manage Davis-Bacon related projects are aware of the requirements involved and will perform them accordingly. Internally, we are also requiring appropriate training for our managing engineers and City Clerk.

Auditor's Remarks

We appreciate the steps the City is taking to resolve this issue. We will review the condition during our next audit.

Applicable laws and Regulations

Title 29, Code of Federal Regulations, Section 3.3 states in part:

Weekly statement with respect to payment of wages.

(b) Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by this part 3 and part 5 of this chapter during the preceding weekly payroll period. This statement shall be executed by the contractor or subcontractor or by an authorized officer or employee of the contractor or subcontractor who supervises the payment of wages, and shall be on form WH 348, "Statement of Compliance", or on an identical form on the back of WH347, "Payroll (For Contractors Optional Use)" or on any form with identical wording.

(c) The requirements of this section shall not apply to any contract of \$2,000 or less

Schedule of Federal Audit Findings and Questioned Costs

**City of Bremerton
Kitsap County
January 1, 2011 through December 31, 2011**

- 2. The City's Public Works Department did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.**

CFDA Number and Title:	20.205 Highway Planning and Construction
Federal Grantor Name:	U.S. Department of Transportation
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Department of Transportation
Pass-through Award/Contract Number:	STPUS – 0303(010); STPUS – 6585(001); HSIP – 0005(242)
Questioned Cost Amount:	\$0

Description of Condition

In 2011, the City spent approximately \$500,000 in federal highway money for design and engineering for three road improvement projects. The City entered into contracts with five companies to provide design and engineering consulting.

Recipients of federal grants are prohibited from contracting with or making subawards to parties that are suspended or debarred from doing business with the federal government. If a vendor certifies in writing that its organization has not been suspended or debarred, the grantee may rely on that certification. Alternatively, the grantee may check for suspended or debarred parties by reviewing the federal Excluded Parties List issued by the U.S. General Services Administration. This requirement should be met prior to entering into a contract with the subrecipient or vendor.

During our audit, we found the City did not confirm that the five vendors were not suspended or debarred from participating in federally funded grant projects.

Cause of Condition

The prior City Engineer was unaware that the suspension and debarment requirements applied to engineering firms.

Effect of Condition and Questioned Costs

The City cannot ensure federal funds are paid to vendors that are eligible to participate in federal programs if the vendor's status is not confirmed. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency.

Although the process was not followed, we determined none of the contractors were suspended or debarred. Therefore, we are not questioning costs charged to the grant.

Recommendation

We recommend the City provide training to staff responsible for federal grant management to ensure future compliance with program requirements.

City's Response

The City of Bremerton strives to insure that federal funds are not paid to vendors that have been suspended or debarred but acknowledges that we can improve our internal processes to insure this does not occur. The City is currently working to include language in our contracts for federally funded projects that prohibit awards to suspended and debarred recipients (including subrecipients). The City is also requiring that appropriate personnel (our managing engineers, the City Clerk, etc.) attend training offered by the Washington State Dept. of Labor & Industries and the State Auditor's Office on this subject during October 2012 (Awarding Agency Prevailing Wage Workshops).

Auditor's Remarks

We appreciate the steps the City is taking to resolve this issue. We will review the condition during our next audit.

Applicable laws and Regulations

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

The auditee shall:

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

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Title 2, Code of Federal Regulations, Section 180.220 - Are any procurement contracts included as covered transactions?

(a) Covered transactions under this part:

- (1) Do not include any procurement contracts awarded directly by a Federal agency; but
- (2) Do include some procurement contracts awarded by non-Federal participants in nonprocurement covered transactions.

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

- (1) The contract is awarded by a participant in a nonprocurement transaction that is covered under Section 180.210, and the amount of the contract is expected to equal or exceed \$25,000.
- (2) The contract requires the consent of an official of a Federal agency. In that case, the contract, regardless of the amount, always is a covered transaction, and it does not matter who awarded it. For example, it could be a subcontract awarded by a contractor at a tier below a nonprocurement transaction, as shown in the appendix to this part.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

Schedule of Prior Federal Audit Findings

City of Bremerton Kitsap County January 1, 2011 through December 31, 2011

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the City of Bremerton. The State Auditor's Office has reviewed the status as presented by the City.

Audit Period: 01/01/2010 – 12/31/2010	Report Reference No: 1006433	Finding Reference No: 1	CFDA Number(s): 14.218
Federal Program Name and Granting Agency: Community Development Block Grant, U.S. Department of Housing and Urban Development		Pass-Through Agency Name: NA	
Finding Caption: The City did not establish adequate internal controls over program income requirements for its Community Development Block Grant.			
Background: The City failed to spend down its program income prior to claiming for federal reimbursements.			
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between;"> <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid </div>			
Corrective Action Taken: <i>CDBG staff will take immediate action to reduce the existing CDBG bank account balance by using CDBG program income to reimburse sub-grantee agencies for vouchers submitted. Vouchers for open CDBG capital projects will be paid with program income until the balance is adequately reduced. We estimate that the balance will be paid down by year end 2011.</i> <i>The City's CDBG Administrator is working with Kitsap County Block Grant to develop best practices related to Program Income expenditure. The Block Grant Department will continue to seek local HUD training opportunities on CDBG Administration and best practices for handling Program Income.</i> <i>The Block Grant Administrator is working with the City's finance department to develop new Program Income receipt / expenditure tracking tools to support our new procedures.</i>			

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

City of Bremerton
Kitsap County
January 1, 2011 through December 31, 2011

Mayor and City Council
City of Bremerton
Bremerton, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bremerton, Kitsap County, Washington, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 19, 2012. During the year ended December 31, 2011, the City implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

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

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a stylized flourish at the end.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 19, 2012

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

**City of Bremerton
Kitsap County
January 1, 2011 through December 31, 2011**

Mayor and City Council
City of Bremerton
Bremerton, Washington

COMPLIANCE

We have audited the compliance of the City of Bremerton, Kitsap County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1 and 2.

INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2 to be a significant deficiency.

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

This report is intended for the information of the audit committee, management, the Mayor and City Council, federal awarding agencies and pass-through entities. However, this report is a

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

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 19, 2012

Independent Auditor's Report on Financial Statements

**City of Bremerton
Kitsap County
January 1, 2011 through December 31, 2011**

Mayor and City Council
City of Bremerton
Bremerton, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bremerton, Kitsap County, Washington, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed on page 16. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bremerton, as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, during the year ended December 31, 2011, the City implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 29 and information on postemployment benefits other than pensions on page 72 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 the 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.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a stylized, flowing script.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 19, 2012

Financial Section

City of Bremerton Kitsap County January 1, 2011 through December 31, 2011

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2011

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2011
Statement of Activities – 2011
Balance Sheet – Governmental Funds – 2011
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2011
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities – 2011
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund – 2011
Statement of Net Assets – Proprietary Funds – 2011
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds – 2011
Statement of Cash Flows – Proprietary Funds – 2011
Statement of Fiduciary Net Assets – Fiduciary Funds – 2011
Notes to Financial Statements – 2011

REQUIRED SUPPLEMENTARY INFORMATION

LEOFF 1 Retiree Medical Benefits – Schedule of Funding Progress – 2011

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards – 2011
Notes to the Schedule of Expenditures of Federal Awards – 2011

Management's Discussion and Analysis

The City of Bremerton (City) presents this Management Discussion and Analysis (MD&A) in order to provide a narrative overview of the City's financial activities, focus on significant financial issues, and highlight significant changes in the City's financial position for the fiscal year ended December 31, 2011. 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 2011, the assets of the City exceeded its liabilities by \$240.3 million. Net assets invested in capital assets (net of depreciation and related debt) account for over 83.4 percent of this amount (\$200.5 million). Net assets restricted primarily for construction projects, debt service, Community Development Block Grant (CDBG) programs and public safety account for another 3.1 percent of this amount (\$7.5 million). The remaining net assets of \$32.3 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$2.9 million (1.2%) during the fiscal year. The governmental net assets decreased by \$.7 million (1%) from the amount reported in 2010. Business-type net assets increased by \$3.5 million (2.3%). The Business-type increase included net income before contributions and transfers for the Water utility of \$770,556, Wastewater utility of \$3,652,125, other nonmajor proprietary funds of \$636,487 and Golf Course \$(89,080).
- As of December 31, 2011, the City's governmental funds reported a combined fund balance of \$9.2 million, a decrease of 38.8% from the prior year end. The fund balance of the General Fund decreased by \$1,024,973. The remaining non-major governmental funds had a fund balance decrease of \$4,797,105. The overall decrease is largely attributable to capital project expenditures financed by bonds issued in 2010 (\$4.4 million). \$4.7 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 \$4.5 million of unrestricted fund balance \$1.3 million has been committed or assigned for specific purposes while \$3.2 million is unassigned and available to the City for future appropriation.
- At the end of 2011, the unassigned fund balance of the General Fund was \$3.3 million or approximately nine percent of total General Fund expenditures of \$36.1 million. The General Fund's unrestricted fund balance decreased by \$1,881,208 from the prior year's amount of \$6.4 million, a 29 percent decrease. This decrease is primarily due to payment of \$1,150,000 as settlement of the City's obligation under a contingent loan agreement with Kitsap County and Kitsap County Housing Authority.
- The City's total outstanding debt decreased by \$1.5 million (1.9%) during the current fiscal year to \$75.6 million. General obligation debt increased by \$3.8 million and revenue debt decreased by \$5.3 million. Debt per capita decreased from \$2,131 to \$1,949, a 8.6% decrease.
- The City's investment in Capital Assets net of depreciation increased \$4.1 million (1.0%) in 2011. Total Capital assets from governmental activities increased \$3.6 million or 1.0%. The increase is primarily due to construction of the Park Avenue Plaza parking facility.

Overview of the Financial Statements

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

Government-wide Financial Statements

The government-wide financial statements are designed to give the reader a picture of the financial condition and activities of the City as a whole. This broad overview is similar to the financial reporting of private-sector businesses. The government-wide financial statements have separate columns for governmental activities and business-type activities. Governmental activities of the City include general government (finance, executive, human resources), community development, public safety (police and fire), 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 nonmajor 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 assets* presents information on all of the City's assets and liabilities, highlighting the difference between the two as net assets. This statement is similar to the balance sheet of a private sector business. Over time, increases or decreases in net assets may be one indicator of improvement or deterioration in the City's overall financial health.

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

Fund Financial Statements

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

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

The City maintained twenty (22) individual governmental funds in 2011. The City's General fund is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are combined into a single column labeled

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

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

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

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

The City’s four (5) enterprise funds are used to report the same functions presented as business-type activities in the government-wide statements with the fund statements providing more detail than is reported in the government-wide statements. The enterprise fund statements provide separate information for the City’s municipal golf course, water and wastewater and stormwater utilities.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City’s various functions. The City uses internal service funds to account for maintenance and acquisition of its fleet of vehicles, insurance premiums and claims, 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 assets

The statement of net assets can serve as a useful indicator of the City’s financial position. The City’s net assets at December 31, 2011 total \$240.3 million. Following is a condensed version of the government-wide statement of net assets. The City presents its financial statements under the new reporting model required by Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Two years of financial information in the GASB 34 format are presented.

Net Assets

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2011	2010	Difference	2011	2010	Difference	2011	2010	Difference
Current Assets	\$ 17,065	\$ 15,119	\$ 1,946	\$ 27,347	\$ 24,490	\$ 2,857	\$ 44,412	\$ 39,609	\$ 4,803
Restricted Assets	100	8,725	(8625)	1,690	1,658	32	1,790	10,383	(8,593)
Capital Assets	105,193	101,558	3635	169,962	169,471	491	275,155	271,029	4,126
Other Noncurrent Assets	1,550	666	884	1,103	1,288	(185)	2,653	1,954	699
Total assets	123,908	126,068	(2,160)	200,102	196,907	3,195	324,010	322,975	1,035
Current Liabilities	4,911	6,126	(1,215)	4,901	5,276	(375)	9,812	11,402	(1,590)
Payable from Restricted Assets	-	449	(449)	163	30	133	163	479	(316)
Noncurrent Liabilities	35,508	34,877	631	38,181	38,163	18	73,689	73,040	649
Total liabilities	40,419	41,452	(1,033)	43,245	43,469	(224)	83,664	84,921	(1,257)
Net assets									
Invested in capital assets, net of related debt	71,532	66,905	4,627	128,931	128,159	772	200,463	195,064	5,399
Restricted	6,007	8,277	(2,270)	1,527	1,306	221	7,534	9,583	(2,049)
Unrestricted	5,948	9,434	(3,486)	26,399	23,973	2,426	32,347	33,407	(1,060)
Total net assets	\$ 83,487	\$ 84,616	\$ (1,129)	\$ 156,857	\$ 153,438	\$ 3,419	\$ 240,344	\$ 238,054	\$ 2,290

The largest component of the City's net assets, \$200.5 million (or 83.4%), is its investment in capital assets less any related outstanding debt issued to acquire those assets. These capital assets, such as utility plant, streets, trails, parks, fire and police vehicles, are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

Restricted net assets consist of amounts legally or otherwise externally restricted for debt service and other programs. Of the \$6.0 million of governmental restricted assets, \$3.0 million or 50% is restricted for the construction of capital assets. \$3.0 million of restricted net assets are special revenues restricted primarily for use in the Community Development Block Grant program (38.9%), for public safety services (33%) and Parking system operation and debt service (19.8%). \$1.5 million of business-type restricted assets are reserves required for debt service payments and asset replacement. A total of \$26.4 million represents the unrestricted net assets of the City's business-type activities and may only be spent on golf course operations, water, wastewater and 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 net assets of \$5.9 million to meet ongoing obligations to citizens and creditors. Examples of other City obligations which these net assets may be used for are: public safety employee salaries, parks maintenance (mowing, fence repair, etc), and ongoing street maintenance (street sweeping, restriping, resurfacing, etc).

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

Changes in net assets

The changes in net assets table illustrates the increases or decreases in net assets of the City resulting from its operating activities. The City's overall financial position improved in 2011 with net assets increasing

approximately \$2.9 million. Net assets of governmental activities decreased by \$.66 million and the net assets of business-type activities increased by \$3.5 million.

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

Changes in Net Assets

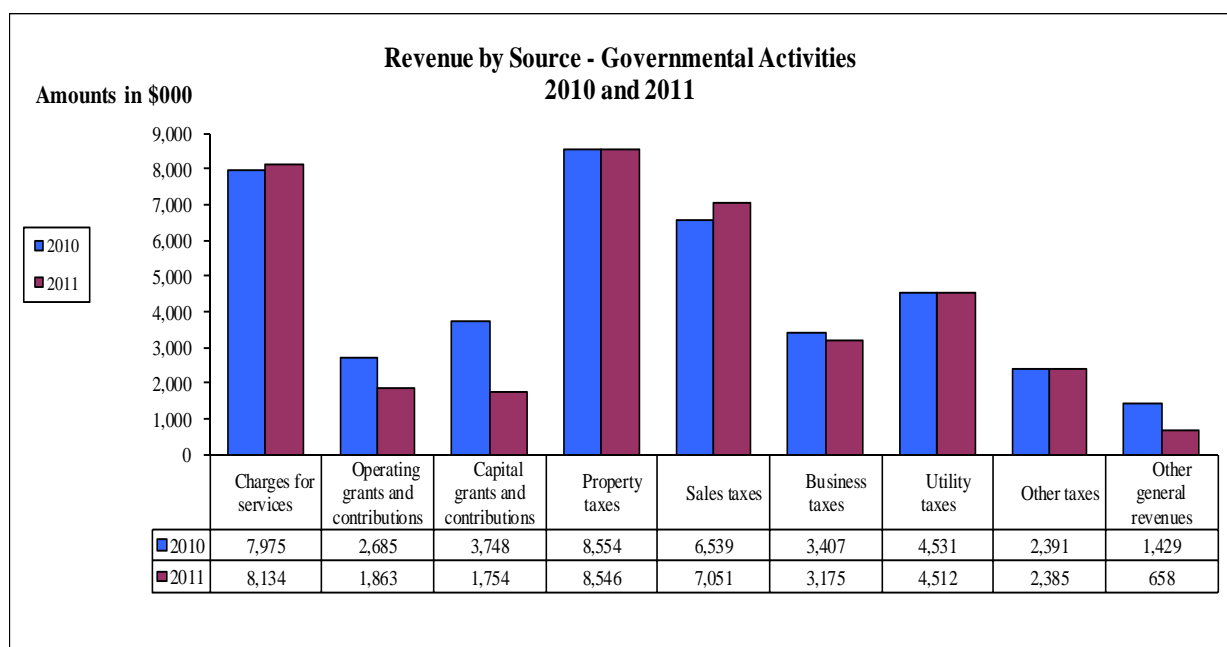
Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2011	2010	Difference	2011	2010	Difference	2011	2010	Difference
Revenues									
Program revenues									
Charges for services	\$ 8,134	\$ 7,975	\$ 159	\$ 26,471	\$ 25,982	\$ 489	\$ 34,605	\$ 33,957	\$ 648
Operating grants and contributions	1,863	2,685	(822)	259	66	193	2,122	2,751	(629)
Capital grants and contributions	1,754	3,748	(1,994)	2,580	7,417	(4,837)	4,334	11,165	(6,831)
General revenues	-								
Property taxes	8,546	8,554	(8)	-	-	-	8,546	8,554	(8)
Sales taxes	7,051	6,539	512	17	-	17	7,068	6,539	529
Business taxes	3,175	3,407	(232)	-	6	(6)	3,175	3,413	(238)
Utility taxes	4,512	4,531	(19)	-	-	-	4,512	4,531	(19)
Other taxes	2,385	2,391	(6)	-	-	-	2,385	2,391	(6)
Other general revenues	658	1,429	(771)	613	584	29	1,271	2,013	(742)
Total revenues	\$ 38,078	\$ 41,259	\$ (3,181)	\$ 29,940	\$ 34,055	\$ (4,115)	\$ 68,018	\$ 75,314	\$ (7,296)
Expenses									
Governmental activities									
General government	4,585	3,251	1,334	-	-	-	4,585	3,251	1,334
Public safety	23,719	24,188	(469)	-	-	-	23,719	24,188	(469)
Utilities and environment	220	219	1	-	-	-	220	219	1
Transportation	4,235	4,012	223	-	-	-	4,235	4,012	223
Economic Environment	2,232	3,310	(1,078)	-	-	-	2,232	3,310	(1,078)
Culture and recreation	5,976	6,510	(534)	-	-	-	5,976	6,510	(534)
Interest on long-term debt	1,512	977	535	-	-	-	1,512	977	535
Business-type activities									
Water	-	-		8,868	8,299	569	8,868	8,299	569
Wastewater	-	-		9,822	9,010	812	9,822	9,010	812
Golf course	-	-		2,136	2,256	(120)	2,136	2,256	(120)
Other proprietary funds	-	-		1,831	1,603	228	1,831	1,603	228
Total expenses	\$ 42,479	\$ 42,467	\$ 12	\$ 22,657	\$ 21,168	\$ 1,489	\$ 65,136	\$ 63,635	\$ 1,501
Excess of revenues over expenses	(4,401)	(1,208)	(3,193)	7,283	12,887	(5,604)	2,882	11,679	(8,797)
Transfers	3,738	3,611	127	(3,738)	(3,611)	(127)	-	-	-
Change in net assets	(663)	2,403	(3,066)	3,545	9,276	(5,731)	2,882	11,679	(8,797)
Net assets - beginning	84,616	84,358	258	153,438	144,891	8,547	238,054	229,249	8,805
Prior period adjustment	(466)	(2,145)	1,679	(126)	(729)	603	(592)	(2,874)	2,282
Net assets - ending	\$ 83,487	\$ 84,616	\$ (1,129)	\$ 156,857	\$ 153,438	\$ 3,419	\$ 240,344	\$ 238,054	\$ 2,290

Governmental activities accounted for a decrease of \$1.1 million of the total change in net assets of \$2.3 million. Significant elements of the decrease are as follows:

- Expenditures increased by 1% in 2011 compared to 2010. Reductions occurred in many functional areas, as a significant effort was made to match declining resources. The most notable exception was expenditures for General Government. Expenditures for General Government increased 41% in 2011 as a result of payment as

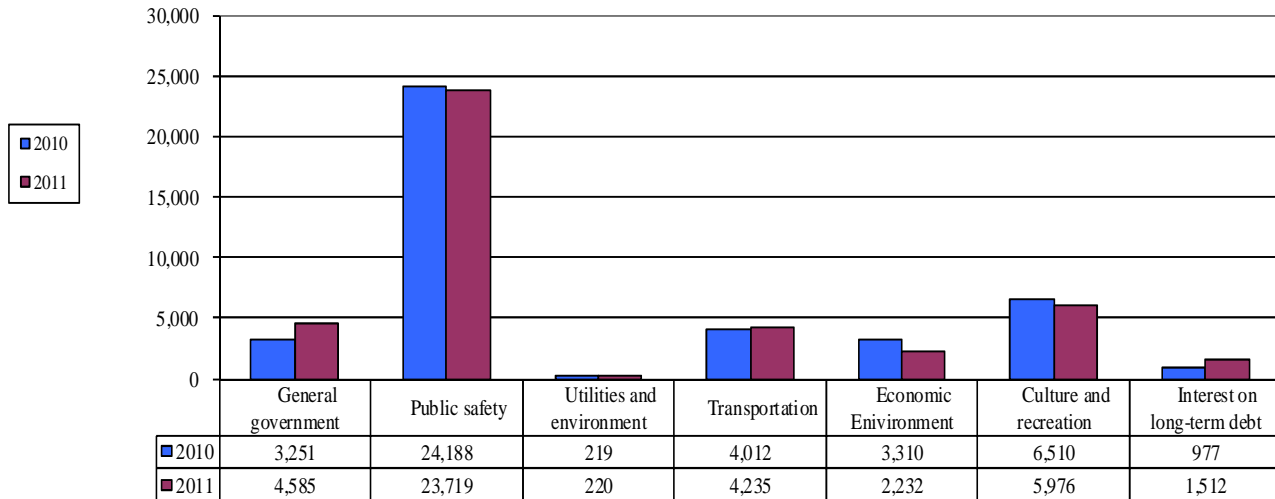
settlement of the City's obligation under a contingent loan agreement with Kitsap County and Kitsap County Housing Authority in the amount of \$1,150,000. Expenditures for Economic Development decreased \$1.1 million. In 2010 property was purchased in the Harborside District that was reconfigured and resold as part of an ongoing economic development effort (.9M). Expenditures for Culture and Recreation decreased \$534,000 (8.2%) from 2010 levels. The Parks swimming pool function decreased \$336,000 due to the transfer of pool operations to the YMCA of Pierce and Kitsap Counties. Expenditures for the operation of the Kitsap Conference Center decreased by approximately \$129,000 in 2011 due to a decrease in events at the facility. Interest on long term debt increased \$.5 million due to repayments associated with debt issued in 2010 for construction of Park Avenue Plaza.

- Total revenue from governmental activities in 2011 decreased by \$3.2 million from 2010. \$2.8 million, or 89%, of this decrease was attributable to a decline in Operating and Capital Grants and Contributions. The largest decreases were from completion in 2011 of an interlocal Police Technology grant (\$1.1million), completion of the Harborside Plaza and Commons (\$1.2 million) and Lions Park renovation (\$.9 million) as well as a decrease in capital grants received for street construction (\$.6 million). The decreases were offset by federal grant proceeds received from the Economic Development Administration for construction of Park Avenue Plaza (\$.6 million). Tax revenues that support ongoing operations increased by \$.25 million in 2011 from the 2010 level. Sales taxes increased 7.8%. General sales taxes increased \$260,254 or 4.4%. Sales taxes collected under the State's Local Revitalization Financing (LRF) program increased \$224,356 in 2011, the first full year of collection. Property, business, utility and other taxes decreased \$.27 million the largest decrease being business taxes (\$.23 million). Other general revenues which include interest earnings, gains on disposal of assets, and miscellaneous income, decreased by \$.78 million in 2011 from the 2010 level. The largest component of this decrease (\$.5 million) was related to the sale of property and other assets. In 2009 property purchased for economic development purposes was sold to a private developer for \$.9 million. This decrease was offset by the sale, in 2011, of a retail pad at Park Avenue Plaza for the construction of a multiscreen cinema.
- Transfers continued to play a significant role in the increase to net assets in 2011. Transfers from Business-type activities increased \$127,000 in 2011. Payments in lieu of tax levied on the city's own utilities increased by \$84,980 to \$3,695,745 (2.3%).
- Governmental activities were reduced \$.5 million in 2011 by a prior period adjustment to recognize employee sick leave benefits payable at retirement from City service.



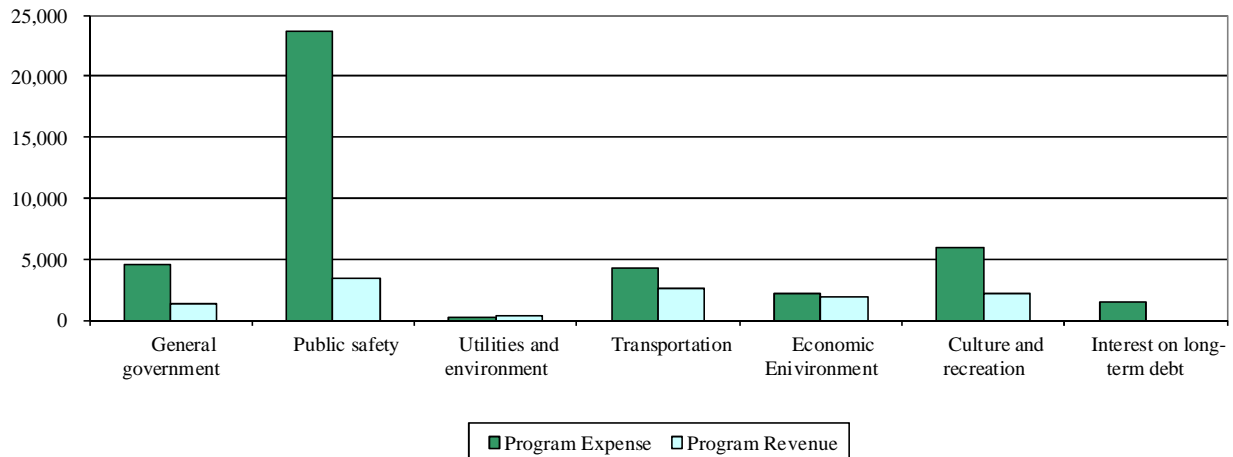
Expenditures by Type - Governmental Activities 2010 and 2011

Amounts in \$000



Expenses and Program Revenues - Governmental Activities 2011

Amounts in \$000

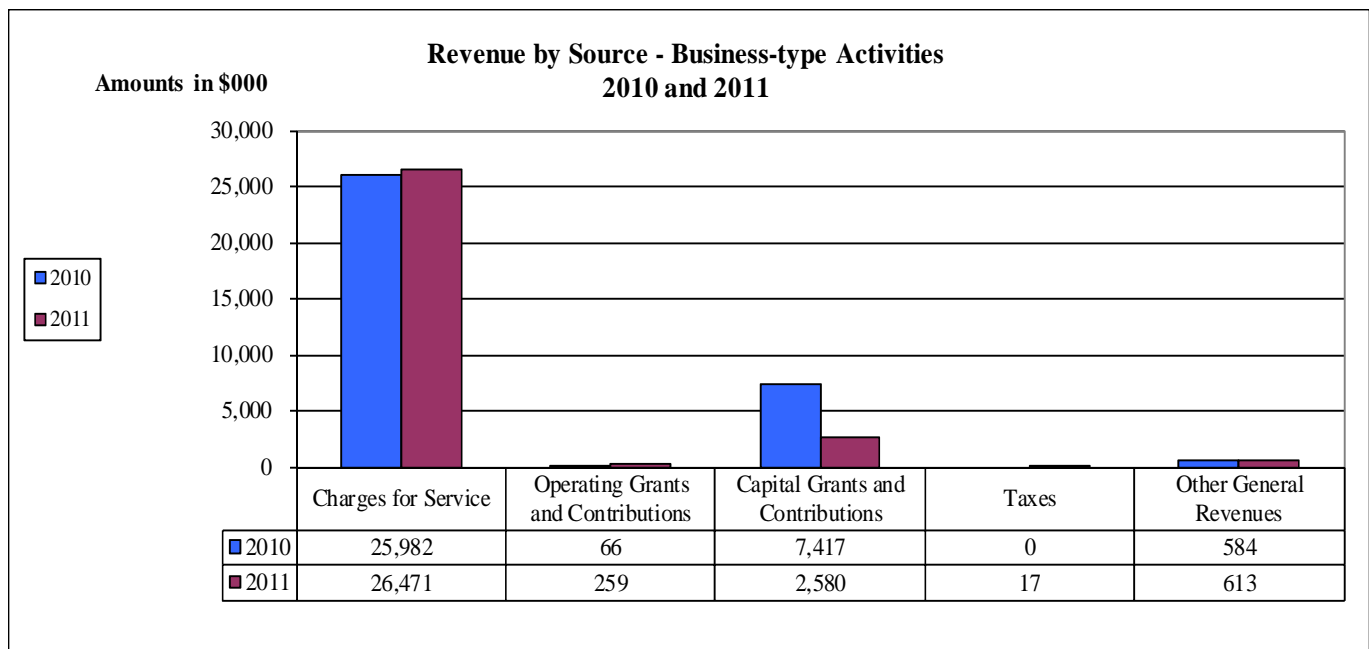


Business-type activities increased City's net assets by \$3.4 million accounting for all of the total growth in the government's net assets.

- A key element of this increase is in capital grants and contributions which continued to be a significant revenue source in 2011. Revenue of \$2.6 million from this source decreased 65.2% in 2011 from 2010

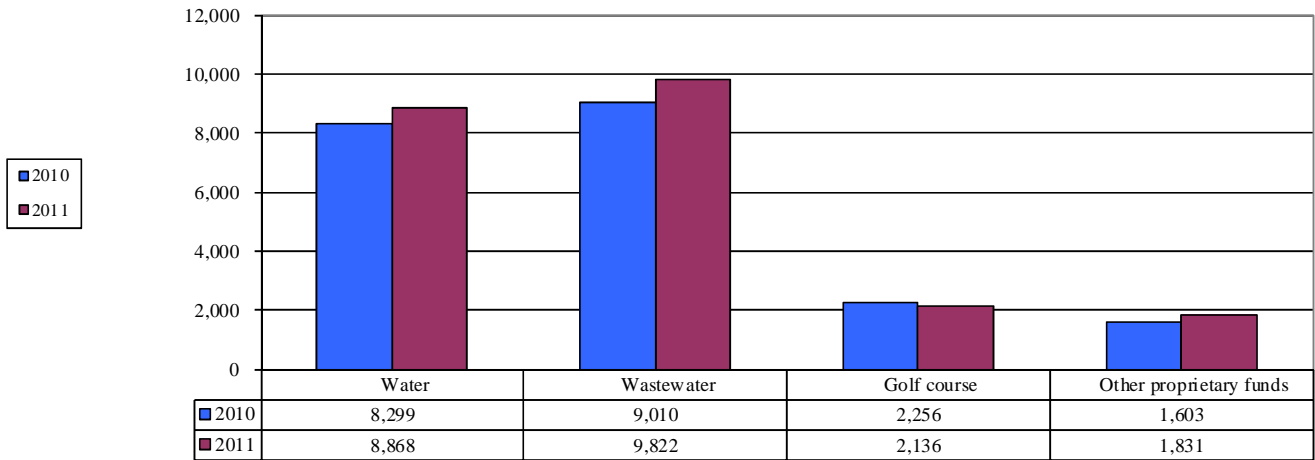
levels as a result of the completion of the Ultraviolet treatment plant and Gorst sewerage projects which were grant funded. Of the \$2.6 million received from this source in 2011 80% was from developer contributions. The largest contribution \$821,500 was from Bremerton Housing Authority for infrastructure at the Bay Vista development.

- Charges for services increased \$.5 million in 2011. This increase was largely as a result of a 2% utility rate increase on water and stormwater billings effective January 1, 2011. Golf course revenues decreased \$76,202 (3.6%) in 2011 which was offset by a decrease of Golf Course expenditures of \$120,000.
- Expenditures for Business Type activities increased \$1.5 million in 2011 over 2010. 29% of this increase was attributable to an increase in depreciation expenses related to new plant additions. The remaining increase resulted from additional operating costs for the new Ultraviolet treatment plant as well as general cost increases for fuel, utilities and supplies.
- Transfers to Governmental Activities increased by \$127,000 in 2011. Payments in lieu of tax levied on the city's own utilities increased by \$84,980 to \$3,695,745 (2.3%).
- Business-Type activities were reduced \$126,000 in 2011 by a prior period adjustment to recognize employee sick leave benefits payable at retirement from City service.



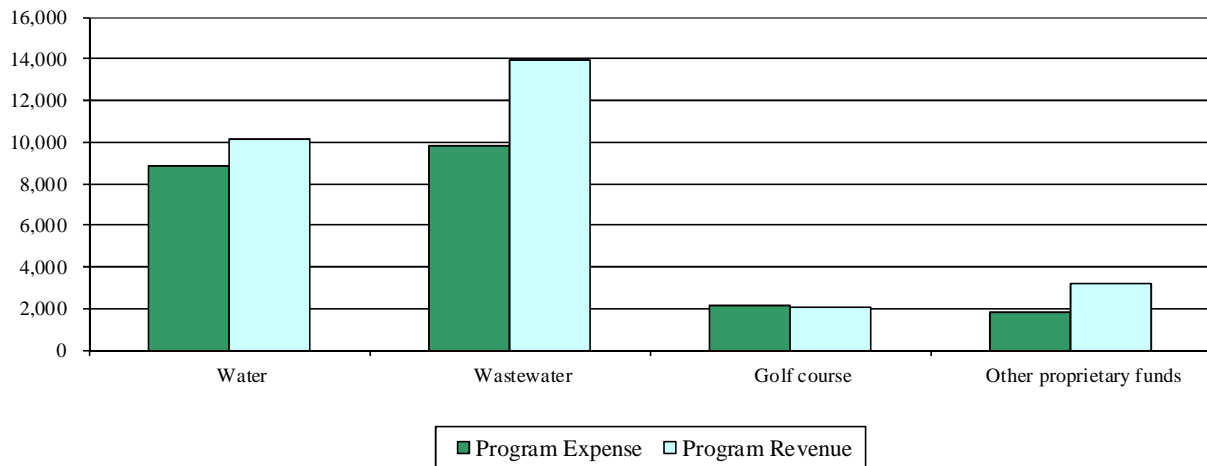
Amounts in \$000

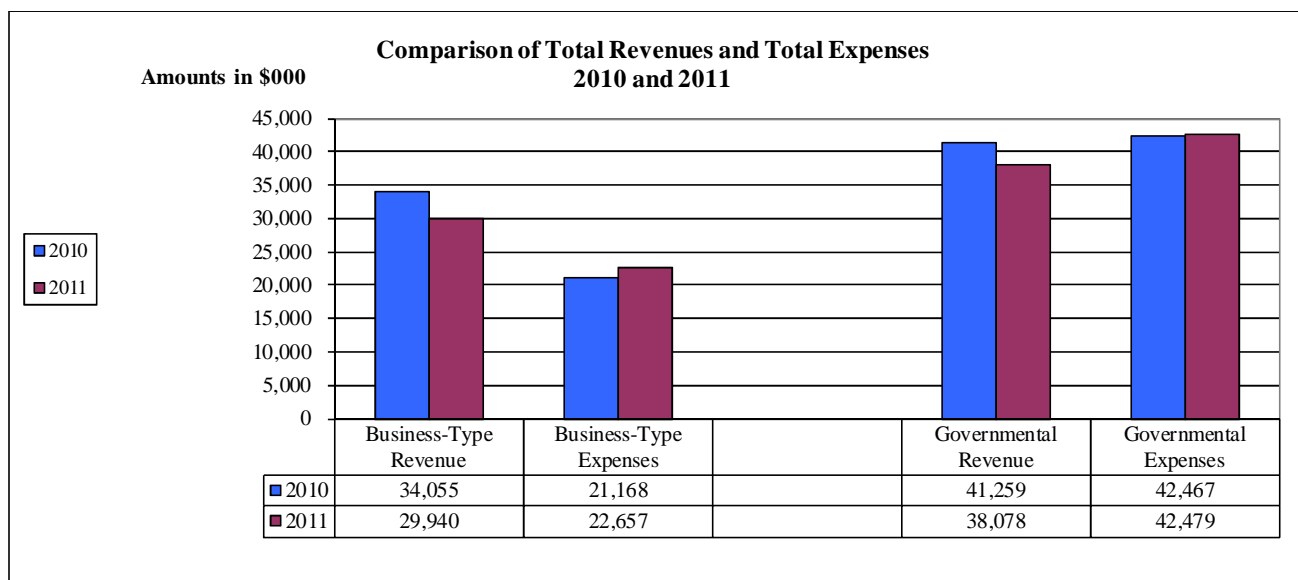
Expenses by Fund - Business-type 2010 and 2011



Expenses and Program Revenues - Business-type Activities 2011

Amounts in \$000





Financial Analysis of the City's Funds

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

Governmental funds

The General Fund is the primary operating fund of the City through which all receipts and payments of ordinary City operations are processed, unless they are required to be accounted for in another fund. Taxes are the major revenue source. At the end of 2011, the fund balance of the General Fund was \$3.4 million. As a measure of the fund's liquidity, the ending fund balance is 9.7% of the fund's 2011 expenditures.

The General Fund balance decreased in 2011 by \$1 million. Revenues decreased from \$32.5 million in 2010 to \$30.8 million in 2011. Expenditures decreased from \$35.2 million to \$35.0 million during the same period. Expenditures exceeded revenues in the General Fund by \$4.2 million in 2011 but were offset by net transfers and other financing sources of \$3.2 million.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Other than accomplishing the programs identified in the 2011 capital improvement program there were no significant transactions pertaining to the proprietary funds.

General Fund Budget Variations

The General Fund collected revenues at 98.8% of the amended amount budgeted or \$.40 million less than budgeted. Expenditures for 2011 were 96.1% of the amended budget resulting in actual expenditures being \$1.3 million less than the budgeted amount. The negative revenue budget variance is substantially attributable to a delay in receipt of intergovernmental revenues related to master planning for the South Kitsap Industrial Area (SKIA) and a decrease in anticipated charges for services and miscellaneous revenues. The positive expenditure budget variance is largely attributable to personnel cost savings gained through attrition and actual expenditures in the Community Development and Police & Fire Pension departments coming in less than projected.

The General Fund budget was balanced in 2011. The original budget provided for an increase to the fund balance of \$70,623. The budget was amended two times during 2011. The final amended budget provided for a decrease to fund balance of \$1,059,760. At the conclusion of 2011, the General Fund decreased fund balance by \$.12 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, 2011, amounts to \$275.2 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, construction in progress, utility transmission/distribution systems, and roads.

The major capital asset additions for governmental activities during 2011 were the completion of the reconstruction of Lions Park and the construction of Park Avenue Plaza.

The major capital assets changes for business-type activities included the construction of wastewater and water capital improvement projects identified within the City's 2011 capital improvement plan.

Capital Assets (net of depreciation)

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2011	2010	Difference	2011	2010	Difference	2011	2010	Difference
Land	\$ 17,406	\$ 15,966	\$ 1,440	\$ 8,602	\$ 8,565	\$ 37	\$ 26,008	\$ 24,531	\$ 1,477
Buildings	47,175	47,890	(715)	32,530	33,394	(864)	79,705	81,284	(1,579)
Improvements/Infrastructure	25,616	26,484	(868)	91,265	86,355	4,910	116,881	112,839	4,042
Machinery and Equipment	3,344	3,770	(426)	28,857	30,360	(1,503)	32,201	34,130	(1,929)
Construction in Progress	11,651	7,448	4,203	8,708	10,797	(2,089)	20,359	18,245	2,114
TOTAL	\$ 105,192	\$ 101,558	\$ 3,634	\$ 169,962	\$ 169,471	\$ 491	\$ 275,154	\$ 271,029	\$ 4,125

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

Long-term debt

New debt for governmental activities in 2011 consisted of a general obligation bond anticipation note that replaced Weekly Rate Demand Revenue Bonds, 2003 that was secured by a letter of credit that expired on August 1, 2011. Additionally the City entered into contracts for the purchase of property and upgrades to the Glenn Jarstad Aquatic Center that are secured by a promissory note. New debt for business-type activities in 2011 consisted of \$2,990,657 of intergovernmental loans to fund Water/Wastewater capital improvement projects identified within the utilities' capital improvement plan. The long-term debt principal paid off in 2011 totaled \$14,354,806.

Outstanding Debt - General Obligation and Revenue Bonds

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2011	2010	Difference	2011	2010	Difference	2011	2010	Difference
General Obligation Bonds	\$ 34,300	\$ 30,438	\$ 3,862	\$ 5,163	\$ 5,268	\$ (105)	\$ 39,463	\$ 35,706	\$ 3,757
General Obligation Notes	\$ 48	-	48	-	-	-	48	-	48
Revenue Bonds	-	5,245	(5,245)	3,925	4,260	(335)	3,925	9,505	(5,580)
Revenue Loans	-	-	-	32,173	31,928	245	32,173	31,928	245
TOTAL	\$ 34,348	\$ 35,683	\$ (1,335)	\$ 41,261	\$ 41,456	\$ (195)	\$ 75,609	\$ 77,139	\$ (1,530)

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

Economic Factors and Next Years Budgets and Rates

Several factors that affect the economic climate in Bremerton were considered when preparing the City's 2012 annual budget. The outlook for the nation, state and region was weighed in relation to its expected impact on Bremerton. The character of the City, including its current and future business activity and its attraction as a place to live, was evaluated. The current financial position and the ability of the City to recover from its history of economic depression have improved due to the major effort to rehabilitate Bremerton's downtown core and attract new investors to the community however, the national, regional and local economic conditions continued to show considerable weakness during 2011 and are expected to continue through 2012 and possibly beyond.

The State of Washington is continuing to face considerable budget challenges; however, the state's budget challenges have had limited effect on Bremerton's transportation capital funding received from the state. Over the past several years, Bremerton has been successful in attracting state and federal grant funds for major transportation improvement projects, including the multi-phase SR304 Bremerton Gateway transportation improvement project. Future outside funding opportunities will be highly competitive and Bremerton, due to its current economic demographics, should compete very well for certain projects. Mid- to long-term, Bremerton must increase its local revenue to address transportation needs. In an effort to do so, the Bremerton City Council, acting as the Bremerton Transportation Benefit District Board, enacted a \$20 per vehicle car tab fee to be used solely for transportation projects. This fee was adopted in December 2011. The first receipts resulting from these revenues will not be realized until 2012.

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

Of the multi-year plans to revitalize Bremerton, the following are completed as of December 2011; the Harborside Conference Center, Hotel and Plaza, Bremerton Ice Arena, Kitsap Credit Union Headquarters/Office building, downtown Naval Parking Garage, waterfront condominiums, Harborside Fountain Park and Naval Museum, downtown police station, Norm Dicks Government Center building, downtown fire station, downtown marina facility, the Downtown Pedestrian Bremerton Transit Center Access, PSNS Memorial Plaza, Fairfield Inn & Suites, downtown Municipal Courthouse, First Street Plaza and the revitalization of Lions Park. Construction of a parking garage and retail commercial pads at Burwell and Park Ave is underway. Highmark Homes LLC of Tukwila has just completed purchase of the East Park, a 50-acre hillside site in East Bremerton for \$1.35 million for the development of as many as 437 housing units. If built in its entirety, the new East Park will be among the largest neighborhoods constructed in Bremerton. The entire project would be constructed in six phases, to be built out over several years.

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

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

A 2004 utility rate study resulted in the development of a multi-year plan for increasing rates and implementing significant increases in general facility charges to cover the cost of new capital improvements. Upon the conclusion

of this study, the City Council approved a multi-year utility rate increase plan to ensure that the three utilities were adequately funded in compliance with the City's adopted financial goals and policies. At the end of 2010 an internal review indicated that an increase for the water and stormwater utilities was appropriate and the City Council adopted a rate increase of 2% for the two utilities effective January 1, 2011. Because the prior rate study was completed before the changes in the local and state recessionary economic climate, the city plans to update the study toward the end of 2012 with a comprehensive rate analysis that will balance local economic factors against the utility system needs.

Requests for information

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

Statement of Net Assets
December 31, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash	\$ 2,635,338	\$ 3,512,505	\$ 6,147,843
Investments	8,109,050	17,352,418	25,461,468
Receivables	4,492,666	4,422,852	8,915,518
Internal balances	34,966	(34,966)	-
Due from other governments	1,209,215	1,018,795	2,228,010
Inventories	116,876	1,022,097	1,138,973
Prepayments	449,662	-	449,662
Restricted assets:			
Cash	100,000	1,386,374	1,486,374
Receivables	-	303,761	303,761
Notes and contracts receivable:			
Due within one year	17,000	53,812	70,812
Due in more than one year	946,138	498,527	1,444,665
Capital assets net of depreciation	105,192,797	169,961,880	275,154,677
Intangible Assets	-	191,502	191,502
Other assets	604,430	412,609	1,017,039
Total assets	\$ 123,908,138	\$ 200,102,166	\$ 324,010,304
Liabilities			
Accounts payable and other current liabilities	\$ 1,884,566	\$ 1,099,441	\$ 2,984,007
Matured long term obligations	-	25,000	25,000
Employee wages payable	933,217	284,347	1,217,564
Other accrued liabilities	-	202,387	202,387
Custodial accounts	-	47,507	47,507
Noncurrent liabilities			
Payable from restricted assets	-	163,000	163,000
Due within one year	2,092,989	3,095,320	5,188,309
Due in more than one year	35,508,428	38,328,216	73,836,644
Total liabilities	\$ 40,419,200	\$ 43,245,218	\$ 83,664,418
Net Assets			
Invested in capital assets net of related debt	\$ 71,532,476	\$ 128,930,881	\$ 200,463,357
Restricted for:			
Tourism promotion & facilities	146,835	-	146,835
Parking system	603,819	-	603,819
Community development block grant	1,187,796	-	1,187,796
Public safety	1,007,219	-	1,007,219
Debt service	-	1,403,678	1,403,678
Workers compensation	100,000	-	100,000
Capital projects	2,962,363	123,457	3,085,820
Unrestricted	5,948,429	26,398,932	32,347,361
Total Net Assets	\$ 83,488,937	\$ 156,856,948	\$ 240,345,885

See accompanying notes to the financial statements.

Statement of Activities
For the Year Ended December 31, 2011

Function/Program	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 4,585,130	\$ 1,270,042	\$ 68,329	\$ -	\$ (3,246,759)	\$ -	\$ (3,246,759)
Public safety	23,718,909	2,901,565	516,689	-	(20,300,655)	-	(20,300,655)
Utilities and environment	219,631	119,087	-	222,884	122,340	-	122,340
Transportation	4,235,164	1,389,701	-	1,192,086	(1,653,377)	-	(1,653,377)
Economic environment	2,231,951	584,330	1,277,748	-	(369,873)	-	(369,873)
Culture and recreation	5,975,233	1,869,701	-	338,805	(3,766,727)	-	(3,766,727)
Interest on long-term debt	1,511,968	-	-	-	(1,511,968)	-	(1,511,968)
Total governmental activities	42,477,986	8,134,426	1,862,766	1,753,775	(30,727,019)	-	(30,727,019)
Business-type activities							
Water	8,868,640	8,964,850	81,701	1,058,595	-	1,236,506	1,236,506
Wastewater	9,822,019	13,240,689	342	720,335	-	4,139,347	4,139,347
Golf course	2,135,886	2,042,445	-	-	-	(93,441)	(93,441)
Other proprietary funds	1,831,098	2,223,229	176,488	801,478	-	1,370,097	1,370,097
Total business-type activities	22,657,643	26,471,213	258,531	2,580,408	-	6,652,509	6,652,509
Total government	\$ 65,135,629	\$ 34,605,639	\$ 2,121,297	\$ 4,334,183	\$ (30,727,019)	\$ 6,652,509	\$ (24,074,510)
General Revenues							
Taxes							
Property					8,546,532	-	8,546,532
Sales					7,050,928	16,735	7,067,663
Business					3,175,405	395	3,175,800
Utility					4,512,670	-	4,512,670
Other					2,384,628	-	2,384,628
Unrestricted investment interest					165,159	219,179	384,338
Miscellaneous					68,978	393,883	462,861
Gain on disposal of capital assets					423,708	-	423,708
Transfers, internal activities					3,737,965	(3,737,965)	-
Total general revenues and transfers					30,065,973	(3,107,773)	26,958,200
Change in net assets					(661,046)	3,544,736	2,883,690
Net assets-beginning					84,615,528	153,438,033	238,053,561
Prior period adjustment					(465,545)	(125,821)	(591,366)
Net assets-ending					<u>\$ 83,488,937</u>	<u>\$ 156,856,948</u>	<u>\$ 240,345,885</u>

See accompanying notes to the financial statements.

Balance Sheet
Governmental Funds
December 31, 2011

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash	\$ 714,637	\$ 1,440,154	\$ 2,154,791
Investments	1,833,074	4,219,605	6,052,679
Receivables	3,803,672	680,125	4,483,797
Due from other funds	424,171	59,044	483,215
Due from other governments	135,696	1,029,957	1,165,653
Inventories	18,683	23,264	41,947
Notes/contracts - deferred	-	963,138	963,138
Total assets	<u>\$ 6,929,933</u>	<u>\$ 8,415,287</u>	<u>\$ 15,345,220</u>

Liabilities and Fund Balances

Liabilities:			
Accounts/contracts payable	\$ 506,643	\$ 1,007,084	\$ 1,513,727
Due to other funds	282,362	207,096	489,458
Due to other governments	25,681	-	25,681
Employee wages payable	816,461	63,442	879,903
Other current liabilities	37,567	15,449	53,016
Deferred revenues	1,853,773	1,326,181	3,179,954
Total liabilities	<u>3,522,487</u>	<u>2,619,252</u>	<u>6,141,739</u>
Fund balances:			
Nonspendable	18,683	23,264	41,947
Restricted	48,556	4,592,196	4,640,752
Committed	-	232,026	232,026
Assigned	65,926	1,045,415	1,111,341
Unassigned	3,274,281	(96,866)	3,177,415
Total fund balances	<u>3,407,446</u>	<u>5,796,035</u>	<u>9,203,481</u>
Total liabilities and fund balances	<u>\$ 6,929,933</u>	<u>\$ 8,415,287</u>	<u>\$ 15,345,220</u>

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

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	105,180,983
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	3,834,558
Internal service funds are used by management to charge the costs of certain activities to individual funds. These assets and liabilities are included in governmental activities in the statement of net assets.	1,220,194
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(35,950,279)

Net assets of governmental activities	<u>\$ 83,488,937</u>
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See accompanying notes to the financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For Year Ended December 31, 2011

	General Fund	Other Governmental Funds	Governmental Funds Total
Revenues			
Taxes	\$ 21,914,658	\$ 2,225,120	\$ 24,139,778
Licenses and permits	1,034,546	199,173	1,233,719
Intergovernmental	1,846,513	3,803,795	5,650,308
Charges for services	4,380,740	569,485	4,950,225
Fines and forfeits	1,228,148	308,542	1,536,690
Miscellaneous	408,653	1,298,038	1,706,691
Total revenues	30,813,258	8,404,153	39,217,411
Expenditures			
Current			
General government	7,028,234	209,526	7,237,760
Public safety	21,571,528	216,104	21,787,632
Utilities and environment	219,631	-	219,631
Transportation	393,713	2,741,944	3,135,657
Economic environment	1,317,305	975,604	2,292,909
Mental/physical health	75,573	-	75,573
Culture and recreation	3,892,599	471,563	4,364,162
Debt service:			
Principal	137,500	1,245,000	1,382,500
Interest and other debt issue costs	273,875	1,129,027	1,402,902
Capital Outlay	86,232	7,170,536	7,256,768
Intergovernmental Payments	42,203		42,203
Total expenditures	35,038,393	14,159,304	49,197,697
Excess (deficiency) of revenues over expenditures	(4,225,135)	(5,755,151)	(9,980,286)
Other financing sources (uses)			
Proceeds of Long Term Debt	-	9,675,000	9,675,000
Payments to Refunded Debt Escrow Agent	-	(9,675,000)	(9,675,000)
Capital asset donations & disposal	8,728	503,095	511,823
Insurance Recoveries	-	1,251	1,251
Transfers in	4,262,744	2,858,403	7,121,147
Transfers out	(1,071,310)	(2,411,523)	(3,482,833)
Total other financing sources and uses	3,200,162	951,226	4,151,388
Other changes in fund balance			
Change in reserves for inventory	-	6,820	6,820
Net change in fund balances	(1,024,973)	(4,797,105)	(5,822,078)
Fund balances-beginning	4,432,419	10,593,140	15,025,559
Fund balances-ending	\$ 3,407,446	\$ 5,796,035	\$ 9,203,481

See accompanying notes to the financial statements.

**Reconciliation of the Statement Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities**
For the Year Ended December 31, 2011

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

Net change in fund balances – total government funds	\$ (5,822,078)
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.	3,641,375
Revenues and expenses in the statement of activities that do not provide current financial resources are not reported in the funds.	(346,269)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,168,942
Internal service funds are used by management to charge the costs of fleet replacement and risk management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	231,439
Change in net assets of governmental activities	\$ <u>(1,126,591)</u>

See accompanying notes to the financial statements.

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For Year Ended December 31, 2011**

	Original Budget 2011	Final Budget 2011	Actual 2011	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 21,633,254	\$ 21,633,254	\$ 21,914,658	\$ 281,404
Licenses and permits	905,800	956,800	1,034,546	77,746
Intergovernmental	1,786,369	1,980,909	1,846,513	(134,396)
Charges for services	3,579,750	3,715,310	3,187,430	(527,880)
Fines and forfeits	1,200,900	1,200,900	1,228,148	27,248
Other Revenues	4,433,725	4,639,325	4,512,116	(127,209)
Total revenues	33,539,798	34,126,498	33,723,411	(403,087)
Expenditures				
City Council	322,050	325,550	316,068	9,482
Executive	375,020	403,520	365,533	37,987
Finance	1,238,380	1,244,280	1,129,876	114,404
Legal	986,100	986,100	912,664	73,436
Human Resources	344,670	364,670	275,223	89,447
Community Development	1,522,200	1,532,200	1,317,305	214,895
Municipal Court	1,313,900	1,319,500	1,250,205	69,295
City Auditor	167,800	167,800	158,424	9,376
Law Enforcement	9,650,900	9,678,440	9,515,061	163,379
Fire/Emergency Medical Services	7,939,700	8,344,700	8,316,387	28,313
Police & Fire Pension	2,750,500	2,735,100	2,420,308	314,792
Facilities	801,900	953,900	922,083	31,817
Parks & Recreation	2,483,200	2,508,200	2,565,247	(57,047)
Engineering	213,090	404,173	393,713	10,460
Non-Departmental	3,359,765	4,218,125	3,988,209	229,916
Total expenditures	33,469,175	35,186,258	33,846,306	1,339,952
Excess (deficiency) of revenues over expenditures	70,623	(1,059,760)	(122,895)	936,865
Fund balances-beginning	1,970,400	3,049,878	3,049,878	-
Fund balances-ending	\$ 2,041,023	\$ 1,990,118	\$ 2,926,983	\$ 936,865
Adjustment to reflect consolidation of Contingency Reserve and Conference Center funds included in the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds			\$ 480,463	
Fund Balances Ending			\$ 3,407,446	
Expenditures				
Personnel	24,328,520	24,845,120	24,296,207	548,913
Supplies, services & taxes	8,071,270	8,461,593	7,731,382	730,211
Capital expenditure	-	77,000	86,232	(9,232)
Debt Service	414,385	414,385	411,375	3,010
Transfers	655,000	1,388,160	1,321,110	67,050
Total expenditures	33,469,175	35,186,258	33,846,306	1,339,952

See accompanying notes to the financial statements.

**Statement of Net Assets
Proprietary Funds
December 31, 2011**

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Nonmajor Enterprise Funds	Total	Internal Service Funds
Assets						
Current assets:						
Cash	\$ 1,028,176	\$ 92,347	\$ 574,179	\$ 482,671	\$ 2,177,373	\$ 1,815,679
Restricted Cash	37,200	-	1,349,174	-	1,386,374	100,000
Investments	3,773,687	327,107	6,812,746	1,709,679	12,623,219	6,785,570
External receivables	1,396,032	2,772	2,429,200	633,833	4,461,837	-
Restricted Special Assessments Rec	202,802	-	-	-	202,802	-
Interest receivable	-	357	7,439	1,867	9,663	7,410
Due from other funds	176,078	1,107	51,213	45,030	273,428	129,293
Due from other governments	34,466	-	758,257	226,072	1,018,795	-
Inventories	681,217	-	340,880	-	1,022,097	74,929
Prepayments	-	-	-	-	-	77,613
Total current assets	7,329,658	423,690	12,323,088	3,099,152	23,175,588	8,990,494
Noncurrent assets:						
Notes and contracts receivable	498,527	-	-	-	498,527	-
Restricted Special Assessments Rec	100,959	-	-	-	100,959	-
Prepaid Pension	-	-	-	-	-	372,049
Capital assets net of depreciation	60,159,505	7,343,696	93,655,559	4,723,960	165,882,720	4,090,974
Other noncurrent assets	411,689	22,315	170,107	-	604,111	-
Total noncurrent assets	61,170,680	7,366,011	93,825,666	4,723,960	167,086,317	4,463,023
Total assets	\$ 68,500,338	\$ 7,789,701	\$ 106,148,754	\$ 7,823,112	\$ 190,261,905	\$ 13,453,517
Liabilities						
Current liabilities:						
Accounts/contract payable	\$ 373,571	\$ 20,814	\$ 670,217	\$ 34,839	\$ 1,099,441	\$ 91,412
Matured long term obligations	-	-	25,000	-	25,000	-
Due to other funds	129,886	23,787	201,270	41,043	395,986	480
Other accrued liabilities	230,196	-	220,574	35,964	486,734	589,950
Current portion of long term debt	581,898	79,495	2,420,446	13,481	3,095,320	-
Bonds payable from restricted assets	41,000	-	-	-	41,000	-
Custodial accounts	39,791	4,550	2,666	500	47,507	-
Total current liabilities	1,396,342	128,646	3,540,173	125,827	5,190,988	681,842
Noncurrent liabilities:						
Claims and judgements payable	-	-	-	-	-	1,226,363
Bonds, notes and loans payable	10,509,203	4,853,957	22,321,767	118,371	37,803,298	-
Bonds payable from restricted assets	122,000	-	-	-	122,000	-
Compensated absences	303,223	-	168,483	53,212	524,918	88,871
Total noncurrent liabilities	10,934,426	4,853,957	22,490,250	171,583	38,450,216	1,315,234
Total liabilities	\$ 12,330,768	\$ 4,982,603	\$ 26,030,423	\$ 297,410	\$ 43,641,204	\$ 1,997,076
Net Assets						
Invested in capital assets, net of related debt	48,921,018	2,410,243	68,924,735	4,595,725	124,851,721	4,090,974
Restricted for capital assets	-	-	123,457	-	123,457	100,000
Restricted for debt service	177,961	-	1,225,717	-	1,403,678	-
Unrestricted	7,070,591	396,855	9,844,422	2,929,977	20,241,845	7,265,467
Total net assets	\$ 56,169,570	\$ 2,807,098	\$ 80,118,331	\$ 7,525,702	\$ 146,620,701	\$ 11,456,441
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					10,236,247	
Net assets of business-type activities					<u>\$ 156,856,948</u>	

See accompanying notes to the financial statements.

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2011

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Nonmajor Enterprise Funds	Total	Internal Service Funds
Operating revenues:						
Charges for services	\$ 8,428,513	\$ 1,968,297	\$ 13,257,820	\$ 2,223,229	\$ 25,877,859	\$ 4,211,302
Interest & dividend income	-	-	-	-	-	12,622
Other operating revenue	624,943	74,148	20,297	43,044	762,432	17,176
Total operating revenues	9,053,456	2,042,445	13,278,117	2,266,273	26,640,291	4,241,100
Operating expenses:						
General operations	1,679,866	626,791	2,645,307	433,227	5,385,191	2,558,485
Maintenance	2,852,135	1,073,540	1,997,836	790,309	6,713,820	-
Customer service and marketing	396,091	-	293,626	44,511	734,228	-
General administration	899,941	80,163	751,252	204,947	1,936,303	299,559
Depreciation and amortization	1,769,372	170,534	3,107,287	90,764	5,137,957	624,964
Property, excise and B&O taxes	393,760	-	388,900	39,002	821,662	-
Risk transfer payments	-	-	-	-	-	413,888
Payments to claimants & beneficiaries	-	-	-	-	-	478,381
Other operating expenses	509,012	-	-	-	509,012	50,164
Total operating expenses	8,500,177	1,951,028	9,184,208	1,602,760	21,238,173	4,425,441
Operating income (loss)	553,279	91,417	4,093,909	663,513	5,402,118	(184,341)
Nonoperating revenues (expenses)						
Interest and investment revenue	67,530	4,322	65,358	16,325	153,535	56,876
Interest expense	(140,622)	(184,858)	(471,032)	(5,327)	(801,839)	-
Gain (loss) on capital asset disposal	(64,935)	-	(85,659)	-	(150,594)	14,125
Other nonoperating revenue/expense	355,304	39	49,549	(38,024)	366,868	20,475
Total nonoperating revenues (expenses)	217,277	(180,497)	(441,784)	(27,026)	(432,030)	91,476
Income (loss) before contributions and transfers	770,556	(89,080)	3,652,125	636,487	4,970,088	(92,865)
Capital contributions	1,051,690	-	700,379	801,478	2,553,547	-
Transfers in	17,168	-	-	220,292	237,460	161,625
Transfers out	(1,336,266)	-	(2,072,665)	(623,469)	(4,032,400)	(4,999)
Change in net assets	503,148	(89,080)	2,279,839	1,034,788	3,728,695	63,761
Total net assets - beginning	55,758,913	2,896,178	77,866,641	6,496,095		11,408,961
Prior Period Adjustment	(92,491)	-	(28,149)	(5,181)		(16,281)
Total net assets - ending	\$ 56,169,570	\$ 2,807,098	\$ 80,118,331	\$ 7,525,702		\$ 11,456,441
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(183,959)	
Change in net assets of business-type activities					\$ 3,544,736	

See accompanying notes to the financial statements.

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

Page 1 of 2

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Nonmajor Enterprise Funds	Total	Internal Service Funds
Cash Flows From Operating Activities						
Cash received from customers	\$ 8,538,534	\$ 1,972,017	\$ 13,252,385	\$ 2,020,201	\$ 25,783,137	\$ 4,207,000
Interest on investments	-	-	-	-	-	13,209
Cash payments to suppliers	(2,779,179)	(1,767,705)	(2,389,629)	(522,153)	(7,458,666)	(1,695,172)
Cash payments to employees	(3,745,396)	-	(2,884,088)	(1,006,436)	(7,635,920)	(1,173,638)
Transfer out -PILOT	-	-	-	-	-	-
Purchase of insurance	(137,288)	-	(199,874)	(48,026)	(385,188)	(424,913)
Payment for insurance claims	-	-	-	-	-	(335,889)
Other operating receipts and payments	235,738	74,743	(368,534)	27,397	(30,656)	17,175
Net cash provided by operating activities	2,112,409	279,055	7,410,260	470,983	10,272,707	607,772
Cash Flows From Noncapital Financing Activities						
Transfers in	-	-	-	220,292	220,292	161,625
Transfers out	(1,301,041)	-	(1,995,151)	(494,689)	(3,790,881)	(4,075)
Grants	-	-	-	56,209	56,209	-
Other nonoperating revenues/expenses	341,273	39	53,158	(156,077)	238,393	20,477
Net cash provided (used) by noncapital financing activities	(959,768)	39	(1,941,993)	(374,265)	(3,275,987)	178,027
Cash Flows From Capital and Related Financing Activities						
Acquisition and construction of capital assets	(2,677,363)	(5,169)	(1,467,832)	(431,536)	(4,581,900)	(289,792)
Proceeds/costs on sale of assets	-	-	-	-	-	61,403
Capital contributions	275,021	-	246,426	27,513	548,960	-
Transfer out for asset construction	-	-	-	(104,780)	(104,780)	-
Collections on notes receivable	103,092	-	-	-	103,092	-
Loan/grant proceeds	3,155,720	-	101,090	337,027	3,593,837	-
Principal paid on bonds	(41,000)	(105,000)	(294,000)	-	(440,000)	-
Principal paid on other debt	(566,284)	-	(2,169,930)	(9,864)	(2,746,078)	-
Interest paid on bonds and other debt	(129,022)	(158,040)	(480,594)	(5,524)	(773,180)	-
Net cash provided (used) for capital and related financing activities	120,164	(268,209)	(4,064,840)	(187,164)	(4,400,049)	(228,389)
Cash Flows From Investing Activities						
Proceeds from repayment of loans	12,182	-	-	-	12,182	7,011
Net change in investments	(458,686)	53,724	34,567	425,379	54,984	825,256
Proceeds from special assessments	-	-	-	-	-	1,868
Interest on loans and investments	37,116	4,537	68,201	17,664	127,518	60,461
Net cash provided (used) in investing activities	(409,388)	58,261	102,768	443,043	194,684	894,596
Net increase (decrease) in cash and cash equivalents	863,417	69,146	1,506,195	352,597	2,791,355	1,452,006
Cash - beginning of year	201,959	23,201	417,158	130,074	772,392	463,673
Cash - end of year	\$ 1,065,376	\$ 92,347	\$ 1,923,353	\$ 482,671	\$ 3,563,747	\$ 1,915,679
Cash at the end of the year consists of:						
Operating fund cash	1,028,176	92,347	574,179	482,671	2,177,373	1,815,679
Restricted cash	37,200	-	1,349,174	-	1,386,374	100,000
Total cash at end of year	\$ 1,065,376	\$ 92,347	\$ 1,923,353	\$ 482,671	\$ 3,563,747	\$ 1,915,679

See accompanying notes to the financial statements.

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

Page 2 of 2

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Nonmajor Enterprise Funds	Total	Internal Service Funds
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ 553,279	\$ 91,417	\$ 4,093,909	\$ 663,513	\$ 5,402,118	\$ (188,208)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	1,769,372	170,534	3,107,287	90,764	5,137,957	624,964
Decrease (increase) in receivables	114,599	578	25,752	(203,028)	(62,099)	3,939
Decrease (increase) in due from other funds/govt	(15,693)	(1,107)	(50,066)	(21,674)	(88,540)	9,936
Decrease (increase) in prepaid expenses	-	-	-	-	-	54,567
Decrease (increase) in inventory	(4,082)	-	(73,504)	-	(77,586)	8,659
Increase (decrease) in accounts payable	(344,774)	(7,547)	320,790	(47,866)	(79,397)	72,493
Increase (decrease) in due to other funds/govt	22,939	23,748	(6,857)	(702)	39,128	(92)
Increase (decrease) in employee wages payable	3,897	-	(14,553)	(5,181)	(15,837)	1,155
Increase (decrease) in employee leaves payable	1,603	-	6,169	(4,843)	2,929	20,359
Increase (decrease) in other payables	604	1,432	1,333	-	3,369	-
Increase (decrease) in deferred revenues	10,665	-	-	-	10,665	-
Net cash provided by operating activities	<u>\$ 2,112,409</u>	<u>\$ 279,055</u>	<u>\$ 7,410,260</u>	<u>\$ 470,983</u>	<u>\$ 10,272,707</u>	<u>\$ 607,772</u>
Noncash investing, capital and financial activities;						
Developers contributed infrastructure	\$ 776,669	\$ -	\$ 453,954	\$ 290,000	\$ 1,520,623	\$ -
Change in market value of investments	(4,643)	(402)	(8,350)	(1,989)	(15,384)	(8,303)

See accompanying notes to the financial statements.

Statement of Fiduciary Net Assets
Fiduciary Funds
As of December 31, 2011

	Agency Funds
	<u> </u>
Assets	
Cash and cash equivalents	\$ 185,616
External receivables	452
Interest receivable	-
Interfund receivables	-
Total assets	<u>\$ 186,068</u>
Liabilities	
Accounts/contracts payable	51,168
Due to other funds	12
Other current liabilities	134,888
Total liabilities	<u>\$ 186,068</u>

See accompanying notes to the financial statements.

Notes to Financial Statements

January 1, 2011 – December 31, 2011

1. Summary of significant accounting policies

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

A. Reporting Entity

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

On February 4, 2009 the City authorized and approved the creation of a Transportation Benefit District coextensive with the boundaries of the City in order to exercise the powers available under RCW 36.73. This blended component unit is governed by a board composed of the nine members of the Bremerton City Council, who serve in an ex-officio and independent capacity. The primary purpose of the District is the acquisition, construction, improvement, provision and/or funding of the maintenance of City street and related infrastructure. Financial Statements for this unit are not included for the year ending 12/31/11 as no fees have been enacted nor transportation improvements been funded.

B. Government-wide and fund financial statements

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

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

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

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

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

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

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

The City reports the following major governmental funds:

The general fund is the City's operating fund. It accounts for all financial resources and transactions except those required to be accounted 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 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 the general government 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, 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, 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 payments-in-lieu of taxes. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

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 with 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 separate 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 supplemental appropriations as well as transfers and revisions within funds must be approved by the legislative authority. The City's budget was amended two times in 2011.

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 Assets

1. Cash and Investments

It is the City's policy to invest all temporary cash surpluses. These investments are reported on the Statement of Net Assets as investments. Included in investments are investments with the State Investment Pool, in U.S. Treasury and Agency Securities and in general obligation bonds issued by the City of Bremerton. At December 31, 2011 the City held \$25,461,468 in investments of surplus cash.

The amounts reported as cash include compensating balances maintained with the City's bank in lieu of payments for services rendered. The average compensating balance maintained during 2011 was \$7,154,039.

For purposes of the statement of cash flows the City considers restricted assets to be cash equivalents.

2. Receivables

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

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

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2011, \$77,733 of special assessments receivable were delinquent.

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

benefited and the note receivable from property sold. An indeterminate portion of the Block Grant loans will be forgiven if certain qualifying conditions are met by the loan recipients.

3. Amounts Due To and From Other Funds

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

4. Amounts Due To and From Other Governmental Units

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

5. Inventories

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

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

6. Restricted Assets and Liabilities

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

Restricted assets are composed of the following:

Governmental type:	
Cash and investments - Workers compensation	\$ 100,000
Total governmental	\$ 100,000
Business type:	
Cash and investments - Debt service	\$ 1,262,917
Cash and investments - Construction	123,457
External receivables - Debt service	303,761
Total business	\$ 1,690,135

7. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Note 6 contains the change in net assets by category for 2011.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is not included as a part of the capitalized value of the assets constructed.

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

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

8. Other Noncurrent Assets

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

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits including compensated absences. Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Accrued vacation is payable at resignation, retirement or upon death of the employee. Maximum vacation carryover hours are set by contract for all bargaining unit employees. The maximum hours allowed to be carried over to the next fiscal year range from 240 to 360 depending on the unit. Payment for 35% of sick leave is only paid at retirement. Outstanding sick leave at year end is accrued for all employees that meet the eligibility criteria for service retirement.

10. Long-term Debt

The City issues debt to finance the purchase or construction of capital assets. Note 9 contains outstanding debt at 12/31/11 and bond and debt service requirements to maturity.

11. Deferred Revenue

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

12. Fund Balance Classification

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:

Nonspendable –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 nonspendable 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.

	General Fund	Other Funds	Total
Fund balances:			
Nonspendable:			
Inventory	\$ 18,683	\$ 23,264	\$ 41,947
Restricted for:			
Tourism promotion & facilities	48,556	79,596	128,152
Parking system		275,314	275,314
Community development block grant		371,658	371,658
Public safety		1,006,381	1,006,381
Debt service		67,559	67,559
Capital projects		2,791,688	2,791,688
Committed to:			
Employee Wellness		6,153	6,153
Parks		34,944	34,944
Public Access Television		105,051	105,051
Public safety		34,648	34,648
Public art		51,230	51,230
Assigned to:			
2012 Budget	65,926		65,926
Street Operations		187,985	187,985
Tourism promotion & facilities		22,166	22,166
Building Abatement		232,913	232,913
Court Improvement		3,758	3,758
Debt Service		324,160	324,160
Park Capital		195,122	195,122
Capital Improvements		79,311	79,311
Unassigned:	3,274,281	(96,866)	3,177,415
Total Fund Balances	\$ 3,407,446	\$ 5,796,035	\$ 9,203,481

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. Under the default policy provided in GASB 54, unrestricted resources are 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 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, 2011.

Fund	Target Rate	Target Balance	Balance 12/31/2011
General	8.5%	\$ 2,866,293	\$ 1,986,115
Water	12%	994,696	4,801,863
Wastewater	12%	1,171,242	7,386,925
Stormwater	12%	219,005	2,074,809
Golf Course	12%	243,480	419,454

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 minimum fund balance is set at \$1,000,000. 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 one million dollars a repayment plan shall be established to replenish the fund to its minimum level. Balances in excess of \$1,000,000 can be used for capital purposes upon City Council approval by simple majority vote.

In May of 2011 the City Council authorized the expenditure of \$1,150,000 to settle a dispute over a contingent loan agreement between the City, Kitsap County and Kitsap Consolidated Housing Authority (Note 10). At 12/31/11 the balance was \$117,092. The fund balance of this management fund is reported as part of the General Fund. The 2012 budget includes \$115,000 towards the rebuilding of the reserve amount.

2. Reconciliation of Government-wide and Fund Financial Statements

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

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

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

Capital Assets of governmental funds net of depreciation	\$ 105,192,797
Capital Assets of Internal Service funds included in governmental activities net of depreciation	(11,814)
Net adjustment to increase fund balance - total governmental funds to arrive at net assets of governmental activities	<u>\$ 105,180,983</u>

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

Deferred revenue for taxes and receivables due beyond the city's 30 day measurable and available period	\$ 3,179,955
Investment interest accrued beyond the city's 30 day measurable and available period	6,611
Build America Bond subsidy beyond the city's 30 day measurable and available period	43,562
Deferred charge for bond issue costs	189,714
Other post-employment benefits	414,716
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 3,834,558</u>

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

Net assets of Internal service funds included in governmental activities	\$ 1,208,380
Net capital assets of Internal Service funds included in governmental activities	11,814
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 1,220,194</u>

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	\$ (34,300,000)
Less: Issuance premiums	(338,513)
Add: Deferred amount on refunding	1,013,192
Other Long term payables	(48,239)
Accrued interest payable	(200,633)
Compensated absences	(2,076,086)
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ (35,950,279)</u>

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

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

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

Capital outlay	\$ 7,285,534
Depreciation	(3,556,043)
Loss on retirement of capital assets	(88,116)
Net adjustment to increase net change in fund balances - governmental funds to arrive at change in net assets - governmental activities	<u>\$ 3,641,375</u>

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	\$ 5,812,685
Revenue bond principal paid	5,244,815
Principal of GO Bonds Issued	(9,675,000)
Long Term Notes Issued	(48,239)
Unamortized debt issuance costs	(165,319)
Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net assets of governmental activities	<u>\$ 1,168,942</u>

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	\$ (4,805)
Change in deferred property taxes receivable	(14,086)
Change in court fines receivable	35,283
Change in block grant loans receivable	(38,688)
Change in parking/red light fines receivable	45,276
Change in BKAT contracts receivable	147,000
Change in Build America Bond subsidy receivable	(34,571)
Change in other post-employment benefits payable	57,609
Change in accrued interest payable	90,824
Change in compensated absences payable	(630,111)
Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net assets of governmental funds	<u>\$ (346,269)</u>

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

Net revenue of risk management activities	\$ 169,378
Net Revenue of employment security activities	\$ 24,554
Net Revenue of Accrued Leave activities	\$ 8,206
Net revenue of information technology activities	(62,305)
Net revenue of equipment maintenance activities	91,606
Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net assets of governmental funds	<u>\$ 231,439</u>

3. Stewardship, Compliance and Accountability

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

4. Deposits and Investments

A. Deposits

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

B. Investments

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

Investment Type	Rating	Weighted Average Maturities	Fair Value	% of Portfolio
Cash				
FDIC or PDPC insured bank deposits			\$7,795,230	
Cash on hand			<u>24,605</u>	
Total Cash			7,819,835	
Investments				
US Agency securities				
Federal National Mortgage Assn	AA	2.62	2,009,760	8%
Federal Farm Credit Banks	AA	1.17	4,014,320	16%
Federal Home Loan Bank	AA	1.71	3,998,073	16%
Federal Home Loan Mortgage Corp	AA	2.93	2,006,800	8%
Washington State Local Government Inv. Pool	NR	0.13		
Surplus Investable Funds			8,269,492	
Bond Proceeds			<u>20</u>	
			8,269,512	32%
City of Bremerton LTGO Bonds	NR	13.5	<u>5,163,000</u>	20%
Total Investments			25,461,465	
Total Cash & Investments			33,281,300	

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

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

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

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

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

5. Property Taxes

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

A. Property Tax Calendar

January 1 - Taxes are levied and become an enforceable lien against properties.

February 14 - Tax bills are mailed.

April 30 - First of two equal installment payments is due.

May 31 - Assessed value of property established for next year's levy at 100 percent of market value.

October 31 - Second installment is due.

Property taxes are recorded as a revenue and receivable when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenue and recognized as revenue of the period to which they apply. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

RCW 84.52.043 allows a city to levy taxes of up to \$3.375 per \$1,000 of taxable property in the city and RCW 41.14.060 allows an additional \$0.225 per \$1,000 for any municipal purpose, if not required to fund pension programs. For cities annexed to a library district, such as the City, the maximum levy rate is reduced by the amount of the library district levy. For tax year 2011, the Kitsap Regional Library District levied \$0.35 per \$1,000 of assessed valuation, and therefore the City's maximum levy rate is \$3.25 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 2011 was \$2.33 per \$1,000 on an assessed valuation of \$2.749 billion, for a total regular levy of \$6,408,428.

Special levies, approved by the voters are not subject to the above limitations. In 2011, the City levied an additional \$.80 per \$1,000 for General Obligation Bonds and Emergency Medical Services.

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

6. Capital Assets

Capital asset activity for the year ended December 31, 2011 was as follows:

Governmental Activities	Beginning Balance 1/1/2011	Increases	Decreases	Ending Balance 12/31/2011
Capital assets, not being depreciated:				
Land	\$ 15,966,574	\$ 1,439,664	-	\$ 17,406,238
Construction in progress	7,447,597	7,151,472	2,947,855	11,651,214
Total capital assets, not being depreciated	<u>23,414,171</u>	<u>8,591,136</u>	<u>2,947,855</u>	<u>29,057,452</u>
Capital assets, being depreciated:				
Buildings/building improvements	56,269,758	455,343	52,677	56,672,424
Improvements other than buildings	16,881,703	1,066,102	289,620	17,658,185
Machinery and equipment	8,701,296	120,807	6,005	8,816,098
Infrastructure	34,454,683	-	-	34,454,683
Total capital assets, being depreciated	<u>116,307,440</u>	<u>1,642,252</u>	<u>348,302</u>	<u>117,601,390</u>
Less accumulated depreciation for:				
Buildings/buildings improvements	8,379,699	1,151,882	34,616	9,496,965
Improvements other than buildings	7,777,791	736,897	219,565	8,295,123
Machinery and equipment	4,931,072	547,324	6,005	5,472,391
Infrastructure	17,074,875	1,126,691	-	18,201,566
Total accumulated depreciation	<u>38,163,437</u>	<u>3,562,794</u>	<u>260,186</u>	<u>41,466,045</u>
Total capital assets, being depreciated, net	<u>78,144,003</u>	<u>(1,920,542)</u>	<u>88,116</u>	<u>76,135,345</u>
Governmental activities capital assets, net	<u>\$ 101,558,174</u>	<u>\$ 6,670,594</u>	<u>\$ 3,035,971</u>	<u>\$ 105,192,797</u>

	Beginning Balance			Ending Balance
Business-type Activities	1/1/2011	Increases	Decreases	12/31/2011
Capital assets, not being depreciated:				
Land	\$ 8,564,901	\$ 36,913	-	\$ 8,601,814
Construction in progress	<u>10,796,753</u>	<u>2,744,604</u>	<u>4,833,298</u>	<u>8,708,059</u>
Total capital assets, not being depreciated	19,361,654	2,781,517	4,833,298	17,309,873
Capital assets, being depreciated:				
Buildings/building improvements	50,891,385	102,326	4,773	50,988,938
Improvements other than buildings	122,917,073	7,328,409	30,167	130,215,315
Machinery and equipment	<u>52,819,884</u>	<u>934,064</u>	<u>1,100,899</u>	<u>52,653,049</u>
Total capital assets, being depreciated	226,628,342	8,364,799	1,135,839	233,857,302
Less accumulated depreciation for:				
Buildings/buildings improvements	17,496,972	966,736	4,773	18,458,935
Improvements other than buildings	36,562,537	2,396,206	8,445	38,950,298
Machinery and equipment	<u>22,459,701</u>	<u>2,297,717</u>	<u>961,358</u>	<u>23,796,060</u>
Total accumulated depreciation	76,519,210	5,660,659	974,576	81,205,293
Total capital assets, being depreciated, net	<u>150,109,132</u>	<u>2,704,140</u>	<u>161,263</u>	<u>152,652,009</u>
Business-type activities Capital assets, net	\$ <u>169,470,786</u>	\$ <u>5,485,657</u>	\$ <u>4,994,561</u>	\$ <u>169,961,882</u>

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

Governmental Activities:	
General government	\$ 227,466
Public safety	616,024
Transportation, including depreciation of general infrastructure assets	1,084,458
Economic environment	348
Culture and recreation	1,627,746
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>6,752</u>
Total depreciation expense - Governmental activities	<u>\$ 3,562,794</u>
Business-type activities:	
Water	\$ 1,687,912
Wastewater	3,093,237
Stormwater	90,764
Golf	170,534
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>618,212</u>
Total depreciation expense - Business-type activities	<u>\$ 5,660,659</u>

Construction Commitments:

At December 31, 2011 the City had several construction projects underway. The following table contains the projects and status at year end.

Project	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Ultraviolet Treatment Plant	377,673	377,673
CE-1 upgrade	331,284	331,284
Well #14 Replacement	30,147	56,009
Park Plaza Construction	6,565,854	133,509
	<u>\$ 7,304,958</u>	<u>\$ 898,475</u>

7. Pension Plans

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, PO Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and No. 50 *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

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

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at age 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum of PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

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

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

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

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

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

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

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

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

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

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

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

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

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

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

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

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

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

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

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

Judicial Benefit Multiplier

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

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

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

Statewide there are 1,179 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and beneficiaries receiving benefits	76,889
Terminated plan members entitled to but not yet receiving benefits	28,860
Active plan members vested	105,521
Active plan members non-vested	51,005
Total	262,275

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at a 7.5 percent for state

government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2011, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer *	7.25%**	7.25%**	7.25%***
Employee	6.00%****	4.64%****	*****

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

** The employer rate for state elected officials is 10.80% for Plan 1 and 7.25% for Plan 2 and 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.

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

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	9.75%	9.75%	9.75%**
Employer-Local Agency*	7.25%	7.25%	7.25%**
Employee-State Agency	9.76%	9.10%	7.50%**
Employee-Local Agency	12.26%	11.60%	7.50%**

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

**Plan 3 defined benefit portion only.

***Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2011	\$ 59,297	\$ 690,533	\$ 88,187
2010	\$ 63,887	\$ 596,771	\$ 80,024
2009	\$ 99,725	\$ 778,836	\$ 106,514

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

Plan Description

The Legislature established LEOFF in 1970. Membership in the system includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations.

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

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

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

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

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

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

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

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

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to member's allowance.

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

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

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

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

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

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

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

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

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

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

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

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and beneficiaries receiving benefits	9,647
Terminated plan members entitled to but not yet receiving benefits	782
Active plan members vested	13,420
Active plan members non-vested	3,656
Total	27,505

Funding Policy

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2011, are as follows:

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

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

**The employer rate for ports and universities is 8.62%

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

	LEOFF Plan 1	LEOFF Plan 2
2011	\$ 758	\$ 555,170
2010	\$ 736	\$ 547,704
2009	\$ 738	\$ 556,767

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

The Legislature created PSERS in 2004 and the system became effective July 1, 2006. PSERS Plan 2 membership includes full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and those full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria. PSERS retirement benefit provisions are established in Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

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

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

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

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

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

employment. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years).

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

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

Beneficiaries of a PSERS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

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

There are 76 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2010:

Retirees and beneficiaries receiving benefits	7
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members vested	0
Active plan members non-vested	4,210
Total	4,217

Each biennium, the state Pension Funding Council adopts PSERS Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2011, are as follows:

	PSERS Plan 2
Employer*	8.86%
Employee	6.36%

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

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

	PSERS Plan 2
2011	\$ 9,864
2010	\$ 9,111
2009	\$ 9,627

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 2011 insurance coverage and risk retention:

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

The risk manager and claims administrators establish reserves for open claims on a case by case basis, after an assessment of each claim's settlement value. Actuarial techniques are used to estimate the long-term liability of the fund for both reported and unreported losses. As of December 31, 2011, the Risk Management Fund had cash and investment reserves of \$1,822,205. In September 2010 the City cash-funded a long term workers' compensation pension with the Department of Labor & Industries in the amount of \$468,669. The Statement of Net Assets for the Risk Management fund includes the unspent portion of this amount in prepayments. Long-term fund liabilities have been estimated at \$1,226,363. 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 \$533,320.

The following table shows the actual claims activity for 2010 and 2011:

	2010	2011
Claims liability - beginning of year	\$ 1,634,164	\$ 1,669,403
Claims incurred	588,997	1,304,200
Estimate change prior years	(72,882)	(877,318)
Payment on claims	<u>(480,876)</u>	<u>(336,602)</u>
Claims liability - end of year	<u>\$ 1,669,403</u>	<u>\$ 1,759,683</u>

9. Long-term Debt

A. Long Term Debt

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

General obligation bonds currently outstanding are as follows:

	Maturity Date	Interest Rate	Outstanding 12/31/2011
2002 Public Safety UTGO	12/01/27	2.5 / 5.25	\$ 425,000
Government Center Real Estate Contract	06/01/34	1.6/5	5,465,000
2005 Sports & Public Works Complex Ref LTGO	12/01/12	3.69	265,000
2009 LTGO Refunding	12/31/28	3.0 / 4.5	5,163,000
2010 LTGO BABS	09/01/35	3.61	6,760,000
2010 UTGO Refunding	12/01/27	3.07	9,860,000
2010 LTGO (B) BABS	12/01/30	3.42	2,220,000
2010 YMCA Pool Improvements	12/31/20	4.00	13,239
2011 LTGO BAN	07/29/13	Variable	9,305,000
2011 Promissory Note - Kitsap County	05/16/14	0	35,000
Total General Obligation Bonds and Notes			\$ 39,511,239

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
2012	\$ 1,517,500	\$ 1,193,122	\$ 105,000	\$ 180,705
2013	9,892,500	1,136,614	105,000	177,030
2014	1,037,500	1,016,095	200,000	198,120
2015	1,025,000	990,612	220,000	190,120
2016	1,062,500	958,842	245,000	203,985
2017-2021	5,795,739	4,203,523	1,511,000	835,515
2022-2026	6,930,000	2,898,995	1,894,000	461,880
2027-2031	4,615,000	1,376,007	883,000	60,030
2032-2035	2,472,500	325,325		
Total	\$ 34,348,239	\$ 14,099,135	\$ 5,163,000	\$ 2,307,385

Revenue bonds and loans currently outstanding are as follows:

	Maturity Date	Interest Rate	Outstanding 12/31/2011
1994 PWTF Loan - Warren Ave CSO	07/01/14	1.0	\$ 478,818
1995 PWTF Loan WWTP improvements	07/01/15	1.0	740,935
1996 PWTF Loan Callow Ave CSO I	07/01/16	1.0	757,227
1997 PWTF Loan Callow Ave CSO II	07/01/17	1.0	211,512
1998 PWTF Loan SR 303 water main	07/01/18	1.0	1,160,527
1999 PWTF Loan Tracyton water sys ph2	07/01/19	2.0	79,260
1999 PWTF Loan CSO design	07/01/20	1.0	390,340
2000 PWTF Loan Multi-Basin CSO	07/01/20	1.0	1,343,932
2000 PWTF Loan Callow CSO 3-5	07/01/20	1.0	2,010,866
2001 PWTF Loan East Bremerton CSO	07/01/21	0.5	1,583,334
2003 PWTF Loan Anderson Cove Basin 12	07/01/23	0.5	346,187
2003 PWTF Loan Naval Avenue	07/01/23	4.0	157,895
2004 PWTF Loan Brentwood storm drain red	07/01/24	4.0	128,235
2004 PWTF Loan Pacific Ave Basin CSO	07/01/24	0.5	909,706

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Outstanding 12/31/2011</u>
2006 PWTF Loan WWTP upgrade	07/01/25	0.5	149,415
2007 PWTF Anderson Cove sewer PS CW1	07/01/27	0.5	568,421
2007 PWTF WWTP upgrades	07/01/27	0.5	2,607,366
1994 CCWF Loan Callow Ave CSO design	05/01/17	0.0	204,988
1997 CCWF Loan Callow Ave CSO I	07/31/18	4.8	1,233,994
1998 DWSRF Loan corrosion control facility	10/01/18	4.0	385,117
2009 DWSRF UV Treatment Upgrade (ARRA)	10/1/17	0.0	5,769,511
2001 DWSRF Loan Tracyton WD upgrade	10/01/21	2.5	1,395,823
2002 DWSRF Loan Eastside flow & pressure	10/1/22	2.5	671,222
2002 DWSRF Loan Casad Dam seismic upgrade	10/1/22	2.5	432,034
2003 DWSRF Loan Casad Dam intake tower	10/01/23	1.5	52,810
2003 DWSRF Loan Pump Station 4 upgrade	10/01/23	1.5	691,335
2004 DWSRF Loan Anderson Creek	10/01/24	1.5	69,963
2004 DWSRF Loan seismic upgrades	10/01/24	1.5	367,878
1999 WPCRF Loan CSO plan update	12/31/22	1.5	150,921
1999 WPCRF Loan Anderson Cove CSO	02/27/21	1.5	502,479
1999 WPCRF Loan Callow Ave CSO final	12/31/22	1.5	349,031
2002 WPCRF Loan Anderson CV CSO red	1/23/22	1.5	367,713
2002 WPCRF Loan Cherry/Trenton CSO red	10/15/24	1.5	716,473
2002 WPCRF Loan Trenton pump station	10/15/24	1.5	716,011
2002 WPCRF Loan Tracyton Beach CSO	12/31/25	1.5	431,506
2002 WPCRF Loan Anderson Cove Basin 12	12/31/26	1.5	201,757
2003 WPCRF Pacific Ave CSO red-sep	6/30/24	1.5	221,240
2003 WPCRF Loan Pacific Ave CSO reduction	12/31/27	1.5	882,476
2004 WPCRF Loan Cherry/Trenton CSO red-1	12/31/26	1.5	874,891
2007 WPCRF WWTP upgrade	1/1/29	2.6	574,477
2009 WPCRF Gorst Sewerage Constuction	12/31/30	1.4	606,009
2009 WPCRF Gorst Septic System Design	12/31/30	2.9	112,155
2009 WPCRF Gorst Sewerage Design	12/31/30	1.4	566,756
2007 W/S Refunding Revenue bond	12/01/21	4.3	3,925,000
Total revenue bonds and loans			<u>\$ 36,097,546</u>

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

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		<u>Business Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ -	\$ -	\$ 3,026,205	\$ 549,847
2013	0	0	4,192,045	495,966
2014	0	0	4,217,150	426,867
2015	0	0	4,088,145	385,043
2016	0	0	3,894,029	329,556
2017-2021	0	0	12,456,034	893,843
2022-2026	0	0	3,485,764	155,066
2027-2030	0	0	738,174	18,686
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,097,546</u>	<u>\$ 3,254,874</u>

On February 20, 2003, the City issued \$10,865,000 principal amount of Weekly Rate Demand Revenue Bonds, 2003, (Kitsap Regional Conference Center Parking Garage). Those bonds were secured by a letter of credit from Bank of America (the "Bank") that initially expired on February 10, 2006, and was extended. The current letter of credit expired on August 10, 2011. On August 1, 2011 the letter of credit facility was replaced by issuance of a \$9,675,000 limited tax general obligation bond anticipation note due on August 1, 2013.

The interest rate on the 2011 BAN is based on the BBA LIBOR Daily Floating Rate and is computed on the principal amount outstanding on the basis of a 360 day year and the actual days elapsed. The effective rate at December 31, 2011 was 1.16%.

In 2009 the City was awarded a \$6,060,000 Drinking Water Assistance loan, funded through the American Recovery and Reinvestment Act of 2009 for the design and construction of a UV Treatment and Chlorine disinfection Facility. Terms of the loan provide that at project completion, the lesser of the loan amount less the loan fee or the actual eligible costs less the loan fee will be forgiven. The outstanding balance on this loan at 12/31/11 was \$5,769,519. The project is scheduled for completion in 2012.

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

At December 31, 2011, the city has \$391,719 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$1,690,135 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, 2011, \$9,315,000 of bonds outstanding are consider defeased.

C. Changes in Long Term Liabilities

During the year ended December 31, 2011, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2011	Additions	Reductions	Ending Balance 12/31/2011	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$ 30,437,685	\$ 9,675,000	\$ 5,812,685	\$ 34,300,000	\$ 1,517,500
Revenue bonds	5,244,815	-	5,244,815	-	-
Notes Payable	-	48,239	-	48,239	-
Add unamortized premiums	365,584	-	27,071	338,513	26,558
Less deferred refunding expense	(1,086,563)	-	(73,371)	(1,013,192)	(73,371)
Total bonds payable:	34,961,521	9,723,239	11,011,200	33,673,560	1,470,687
Claims and judgments	1,669,403	1,304,200	1,213,920	1,759,683	533,320
Compensated absences	1,964,814	2,241,331	2,037,971	2,168,174	88,982
Governmental activity long-term liabilities:	\$ 38,595,738	\$ 13,268,770	\$ 14,263,091	\$ 37,601,417	\$ 2,092,989

	Beginning Balance 1/1/2011	Additions	Reductions	Ending Balance 12/31/2011	Due Within One Year
Business-type Activities:					
Bonds payable:					
General obligation bonds	\$ 5,268,000	\$ -	\$ 105,000	\$ 5,163,000	\$ 105,000
Revenue bonds	4,260,000	-	335,000	3,925,000	350,000
Less deferred refunding expense	(255,053)	-	(25,505)	(229,548)	(25,505)
Total bonds payable:	9,272,947	-	414,495	8,858,452	429,495
Intergovernmental loans	31,927,970	2,990,657	2,746,073	32,172,546	2,676,205
Note payable	111,233	-	111,233	-	-
Compensated Absences	542,298	448,922	435,681	555,538	30,620
Business-type activity long-term liabilities:	\$ 41,854,448	\$ 3,439,579	\$ 3,707,482	\$ 41,586,536	\$ 3,136,320

The Risk Management, Equipment Maintenance and Information Technology internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$1,759,683 of Risk Management claims and judgments and \$88,871 of compensated absences are included in the above governmental activities amounts.

10. Contingencies, Litigation and Claims

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

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

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

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

11. Restricted Net Assets

The government-wide statement of net assets reports \$7,395,246 of restricted net assets, all of which is restricted by enabling legislation and external contractual commitments.

12. Interfund Balances and Transfers

A. Interfund Balances

Interfund balances at December 31, 2011 were as follows:

		Due From								
		General Fund	Other Govt	Water	Waste-Water	Golf	Other Proprietary	Internal Service	Fiduciary	Total
Due To	General Fund	\$ -	\$ 32,979	\$ 127,576	\$ 199,601	\$ 23,787	\$ 40,228	\$ -	\$ -	\$ 424,171
	Other governmental funds	-	59,044	-	-	-	-	-	-	59,044
	Water	-	-	-	-	-	64	-	-	64
	Wastewater	24,002	26,785	88	-	-	338	-	-	51,213
	Golf	1,107	-	-	-	-	-	-	-	1,107
	Other proprietary funds	45,030	-	-	-	-	-	-	-	45,030
	Internal Service	36,209	697	2,222	1,669	-	412	480	12	41,701
	Total	\$ 106,348	\$ 119,505	\$ 129,886	\$ 201,270	\$ 23,787	\$ 41,042	\$ 480	\$ 12	\$ 622,330

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 2012. Interfund loans are approved by City Council Resolution and include a repayment date. The following schedule is a summary of loans outstanding at year end including the year of final payment.

Loaned From	Purpose	Yr of final Payment	Loaned To		
			General Fund	Other Govt	Total
Water	Park Land	2025	\$ 176,014	\$ -	\$ 176,014
Internal service	Park Impr	2020	-	87,592	87,592
Total			\$ 176,014	\$ 87,592	\$ 263,606

B. Interfund Transfers

Interfund transfers at December 31, 2011 were as follows:

		Transfer From						
		General Fund	Other Govt	Water	Waste-Water	Other Proprietary	Internal Service	Total
Transfer To	General Fund	\$ -	\$ 412,000	\$ 1,307,466	\$ 2,044,970	\$ 343,308	\$ -	\$ 4,107,744
	Other governmental funds	915,000	1,993,623	-	-	104,780	-	3,013,403
	Water				9,244	7,924		17,168
	Other proprietary funds	62,560				157,732		220,292
	Internal Service	93,550	6,100	28,800	18,450	9,725	5,000	161,625
	Total	\$ 1,071,110	\$ 2,411,723	\$ 1,336,266	\$ 2,072,664	\$ 623,469	\$ 5,000	\$ 7,520,232

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

There were several significant transfers during 2011. \$780,000 was transferred from the Harborside Plaza capital projects fund to the Park Plaza capital projects fund as a partial match for a \$2.6M federal award from the US Economic Development Administration for additional improvements at the Park Plaza facility. Those funds were restricted to capital projects in the Downtown Revitalization Area.

The Arterial Street and Stormwater funds transferred \$237,271 and \$104,780 respectively to the Lower Wheaton Way capital projects fund as match for a \$1.4 million dollar grant from the Washington State Transportation Improvement Board for the Lower Wheaton Way reconstruction project.

The Stormwater fund transferred \$157,732 to the Gorst Creek Watershed fund for match for a grant awarded by the U.S. Environmental Protection Agency to develop a Comprehensive Plan for the Gorst Creek Watershed.

Two new internal service funds were created in 2011 to fund unemployment and termination leave benefits. \$63,700 was transferred from various operating funds to establish the Employment Security fund and \$97,925 was transferred from various funds to the Accumulated Leave Liability fund.

13. Receivable and Payable Balances

A. Receivables

Receivables at December 31, 2011 were as follows:

	Accounts	Taxes	Special Assessments	Notes Contracts	Other	Total
Governmental Activities:						
General Fund	\$ 1,409,315	\$ 2,378,022	\$ -	\$ 16,335	\$ -	\$ 3,803,672
Non-major and other funds	369,092	262,359	-	1,011,812	12	1,643,275
Reconciliation of balances in fund financial statements to government-wide financial statements	-	-	-	-	8,857	8,857
Total governmental activities	\$ 1,778,407	\$ 2,640,381	\$ -	\$ 1,028,147	\$ 8,869	\$ 5,455,804
Business-Type Activities:						
Water	\$ 1,340,870	-	303,761	549,568	\$ 4,121	\$ 2,198,320
Golf	-	-	-	2,772	357	3,129
Wastewater	2,428,943	257	-	-	7,439	2,436,639
Other Proprietary Funds	633,833	-	-	-	1,867	635,700
Reconciliation of balances in fund financial statements to government-wide financial statements			-		5,164	5,164
Total business-type activities	\$ 4,403,646	\$ 257	\$ 303,761	\$ 552,340	\$ 18,948	\$ 5,278,952

B. Payables

Accounts Payable and other current liabilities at December 31, 2011 were as follows:

	Vendors	Retainage	Due to Other Governments	Other	Total
Governmental Activities:					
General Fund	\$ 503,069	\$ 3,574	\$ 26,148	\$ 37,100	\$ 569,891
Non-major and other funds	996,430	10,652	449	15,000	1,022,531
Reconciliation of balances in fund financial statements to government-wide financial statements	91,511	-	-	\$ 200,633	292,144
Total governmental activities	\$ 1,591,010	\$ 14,226	\$ 26,597	\$ 252,733	\$ 1,884,566

Business-Type Activities:

Water	\$	373,571	\$	-	\$	-	\$	-	\$	373,571
Golf		20,814		-		-		-		20,814
Wastewater		666,525		3,692		-		-		670,217
Other Proprietary funds		34,839		-		-		-		34,839

Reconciliation of balances in fund
financial statements to government-
wide financial statements

		-		-		-		-		-
Total business-type activities	\$	1,095,749	\$	3,692	\$	-	\$	-	\$	1,099,441

14. Post Employment Benefits other than Pension

Statement No. 45 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for reporting of post employment benefits other than pensions for financial statement for periods beginning after December 15, 2007.

Plan Description

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of nineteen years as of September 1, 2006. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB. The net OPEB obligation of (\$414,716) is included as a noncurrent asset on the Statement of Net Assets.

	Fiscal Year Ending 12/31/11
Determination of Annual Required Contribution:	
Amortization of UAAL*	1,352,725
Interest Adjustment to year End	13,460
Annual Required Contribution (ARC)	\$ 1,366,185

Determination of NET OPEB Obligation:

Annual Required Contribution	\$	1,366,185
Annual OPEB Cost	\$	1,366,185
Contributions		(1,423,794)
Change in Net OPEB Obligations	\$	(57,609)
Net OPEB Obligations - beginning of year	\$	(357,107)
Net OPEB Obligations - end of year	\$	(414,716)

* Unfunded Actuarial Accrued Liability (UAAL)

The City's OPEB cost, the percentage OPEB cost contributed to the plan and the net OPEB Assets for 2011 and the proceeding two years, was as follows:

Fiscal year Ended	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	Net OPEB Obligation
12/31/2009	\$ 1,366,185	105.88%	\$ (280,444)
12/31/2010	\$ 1,366,185	105.61%	\$ (357,107)
12/31/2011	\$ 1,366,185	104.22%	\$ (414,716)

Funded Status and Funding Progress

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

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

Actuarial Methods and Assumptions

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

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

The UAAL is being amortized on a closed basis at the assumed discount rate. The remaining amortization period at January 1, 2011 was 16.75 years.

15. Segment Information

The City operates a utility system providing water, wastewater and stormwater management services to the citizens of Bremerton and a portion of Kitsap County outside city boundaries. Operations are financed by user fees imposed on customers of each utility. The City has issued revenue bonds to finance improvements to its sewer system. While the operations of each utility are accounted for in separate funds, the repayment of the revenue bonds relies on the combined revenues of all three utilities. In addition, the City operates a public golf course whose operations are funded entirely through user fees. With the exception of the combined utility, there are no revenue bonds issued or other revenue-

backed debt outstanding for which full, detailed segment data is not provided in the proprietary fund financial statements.

The key financial data for the year ended December 31, 2011 for the combined utility operations are as follows:

Condensed Statement of Net Assets

Assets

Current assets	\$ 21,162,722
Restricted assets	1,690,135
Capital assets	158,539,024
Other assets	1,080,323
Total assets	<u>182,472,204</u>

Liabilities

Current liabilities	5,184,342
Long-term liabilities	33,474,259
Total liabilities	<u>38,658,601</u>

Net Assets

Restricted for debt service	1,566,678
Restricted for capital replacement	123,457
Unrestricted	19,681,990
Invested in capital assets net of related debt	122,441,478
Total net assets	<u><u>\$ 143,813,603</u></u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Total operating revenues	\$ 24,597,846
--------------------------	---------------

Operating Expenditures:

Operations & maintenance	14,319,722
Depreciation/amortization/depletion	4,967,423
Total operating expenses	<u>19,287,145</u>

Operating income(loss)	5,310,701
------------------------	-----------

Non-Operating Revenues/Expenses

Interest revenue/expense (net)	(467,768)
Other (net)	216,235
Total non-operating revenues/expenses	<u>(251,533)</u>

Capital contributions	2,553,547
Transfers	(3,794,940)

Change in net assets	3,817,775
Beginning net assets	140,121,649
Accounting Change	(125,821)
Ending net assets	<u>\$ 143,813,603</u>

Net cash provided By:

(a) Operating activities	\$ 9,993,652
(b) Noncapital financing activities	(3,392,922)
(c) Capital and related financing activities	(4,131,840)
(d) Investing activities	135,163
Beginning cash and investment balance	13,046,562
Ending cash and investment balance	<u>\$ 15,650,615</u>

16. Other Disclosures

A. Prior Period Adjustment

The 2011 beginning fund balance was adjusted to recognize the liability for anticipated payments for unused sick leave at December 31, 2010. In prior years the amount payable was considered immaterial due to the small number of employee retirements. As the work force has aged the number of employees eligible to retire has increased significantly. Payment for 35% of sick leave is only paid at retirement. Outstanding sick leave at year end is accrued for all employees that meet the eligibility criteria for service retirement.

	<u>Fund Statements</u>	<u>Government Wide</u>
Information Technology	\$ (15,013)	
Total Internal Service Funds	<u>\$ (15,013)</u>	
Total Governmental Activities		<u>(465,545)</u>
Water	(92,491)	
Wastewater	(28,149)	
Nonmajor Enterprise Funds	(5,181)	
Total Proprietary Funds	<u>\$ (125,821)</u>	
Total Business-Type Activities		<u>\$ (125,821)</u>
Government-wide adjustments		<u>\$ (591,366)</u>

B. Accounting and Reporting Changes

The City implemented GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions during the year ended December 31, 2011. The objective of this statement is to improve the usefulness and understandability of governmental fund balance information. It provides more clearly defined categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. It also clarifies the existing governmental fund type definitions to improve the comparability of governmental fund financial statements and help financial statement users better understand the purposes for which governments have chosen to use particular funds for financial reporting. The City replaced the reserved and unreserved fund balance classifications with nonspendable, reserved, committed, assigned and unassigned within the equity section of the Governmental Funds Balance Sheet.

The City removed the note disclosure regarding following pre-November 30, 1989 private sector accounting. This was done because it early implemented GASB 62, Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. With this statement, the Governmental Accounting Standards Board included former FASB guidance that relates to governmental entities into its own standards, making the note disclosure unnecessary.

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

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

CITY OF BREMERTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2011

1 Federal Agency Name/Pass- Through Agency Name	2 Federal Program Name	3 CFDA Number	4 Other I.D. Number	5 Expenditures			6 Foot- note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
U.S. Dept of Agriculture	Cooperative Forestry Assistance	10.664	IAA-11-278/K244-08-DG-014	10,000		10,000	2
U.S. Dept of Commerce	Investments for Public Works and Economic Development	11.300	07-01-06590		650,972	650,972	2
U.S Dept of HUD	ARRA-Community Development Block Grant 2008	14.253	B-08-MY-53-0011		98,600	98,600	5c,6
U.S Dept of HUD	Community Development Block Grant	14.218	B-10-MC-53-0011 B-11-MC-53-0011 Program Income Subtotal		288,985 208,430 <u>43,000</u> 540,415	 540,415	3
U.S Dept of HUD	Shelter Plus Care	14.238	WA0100C0T 010802 - Tenant WA0100C0T 011003 - Tenant WA0098C0T 010802 - Project WA0098C0T 011003 - Project WA0099C0T 010802 - Sponsor WA0099C0T 011003 - Sponsor Subtotal		3,743 33,921 15,562 14,913 9,238 <u>93,622</u> 170,999	 170,999	5d
U.S. Dept. of HUD/Pass through from Kitsap County	HOME Investment Partnerships Program	14.239	KC19908 KC29909 KC35711 Program Income Subtotal	3,075 182,518 18,895 <u>51,333</u> 255,821		 255,821	2 3 5e
Fish and Wildlife Service/Pass-Thru National Fish & Wildlife Foundation	Fish and Wildlife Management Assistance	15.608	2008-0048-002	14,080	0	14,080	2
U.S. Dept of the Interior/Pass through Recreation and Conservation Office	Land and Water Conservation Fund	15.916	08-1257D 09-1351D Subtotal	94,021 <u>38,829</u> <u>132,850</u>		 132,850	2 2
U.S. Dept of Justice	Bulletproof Vest Partnership	16.607	99002098		5,402	5,402	2
U.S. Dept of Justice	Public Safety Partnership & Community Policing (COPS)	16.710	2007-CK-WX-0057		62,539	62,539	5a
U.S. Dept of Justice	ARRA-Public Safety Partnership & Community Policing (COPS)	16.710	2009-RK-WX-0887		246,636	246,636	2,6

1	2	3	4	5			6
Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot-note Ref.
				From Pass-Through Awards	From Direct Awards	Total	
U.S. Dept of Justice	Edward Byrne Memorial Justice Assistance Grant	16.738	2008-DJ-BX-0158 2010-DJ-BX-0162 Subtotal		1,467 <u>51,155</u> 52,622	52,622	
U.S. Dept of Justice	ARRA-BJA FY 2009 Recovery Act Edward Byrne memorial Justice Assistance Grant	16.804	2009-SB-B9-1743		105,551	105,551	2,6
U.S. Dept of Justice	Federal Equitable Sharing	16.922	WA0180100		47,897	47,897	
U.S. Dept. of Transportation/Pass-through from WA State DOT	Highway Planning and Construction	20.205	HSIP-000S(242) STPUS-0303(010) STPUS-9918(011) STPUS-6585(001) Subtotal	82,802 52,833 128 <u>358,663</u> 494,426		494,426	2
U.S. Dept of Transportation (NHTSA)/Pass-through WA Traffic Safety Commission	State and Community Highway Safety	20.600	N/A	5,904		5,904	
U.S. Dept of Transportation (NHTSA)/Pass-through WA Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive	20.601	N/A	7,342		7,342	
Environmental Protection Agency, Office of Air and Radiation	Climate Showcase Communities Grant	66.041	AF-83452701-0		232,718	232,718	2
Environmental Protection Agency	Puget Sound Watershed Management Assistance	66.120	PO-00J08701-0		133,444	133,444	2
Environmental Protection Agency/Pass-through Dept. of Ecology	ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	L10S0019 L1000019 L10S0020 Subtotal	13,096 10,532 <u>6,859</u> 30,487		30,487	2,4,6
Environmental Protection Agency/Pass-through WA State Dept of Commerce	ARRA- Capitalization Grants for Drinking Water State Revolving Funds	66.468	DR09-952-075	2,062,905		2,062,905	2,4
Department of Energy/Pass-through Dept of Commerce	ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	F10-52110-018 F10-52110-058 Subtotal	103,067 <u>54,000</u> 157,067		157,067	2,6
U.S. Dept of Homeland Security/Pass-through from WA Military Dept	Disaster Grants - Public Assistance	97.036	1734-DR-WA	5,918		5,918	2
Total Federal Awards Expended				\$3,176,800	\$2,347,795	\$5,524,595	

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

CITY OF BREMERTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2011

NOTE 1- BASIS OF ACCOUNTING

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

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - PROGRAM INCOME

The city generates program income through loans made from the CDBG and HOME programs to low income homeowners for down payment assistance and homeowner-occupied housing rehab. The income generated is used for a wide range of activities eligible under the CDBG and HOME programs, respectively.

NOTE 4 - FEDERAL LOANS

The amount listed for each loan includes program related costs incurred during year. Requests for loan proceeds are made on a reimbursement basis. Loans are also reported on the city's Schedule of Long-Term Liabilities.

NOTE 5 - AMOUNTS AWARDED TO SUBRECIPIENTS

- (a) Included in the total amount expended for this program is \$62,539 that was passed through to a subrecipient that administered its own project.
- (b) Included in the total amount expended for this program is \$442,026 that was passed through to subrecipients that administered their own projects.
- (c) Included in the total amount expended for this program is \$83,801 that was passed through to a subrecipient that administered its own project.
- (d) Included in the total amount expended for this program is \$167,304 that was passed through to a subrecipient that administered its own project.
- (e) Included in the total amount expended for this program is \$233,451 that was passed through to a subrecipient that administered its own project.

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

Expenditures for this program were funded by ARRA.

NOTE 7 - EQUITABLE SHARING PROGRAM

The amount listed represents expenditures during 2011 of funds received through the Asset Forfeiture Program. The remaining balance of funds received through this program at 12/31/11 is \$202,650.



ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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