



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

City of Bremerton

Kitsap County

For the period January 1, 2014 through December 31, 2014

Published September 24, 2015

Report No. 1015211





Washington State Auditor's Office

September 24, 2015

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,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Federal Summary	4
Status Of Prior Federal Audit Findings	6
Independent Auditor’s Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards	8
Independent Auditor’s Report On Compliance For Each Major Federal Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133.....	10
Independent Auditor’s Report On Financial Statements	13
Financial Section.....	16
About The State Auditor’s Office.....	79

FEDERAL SUMMARY

**City of Bremerton
Kitsap County
January 1, 2014 through December 31, 2014**

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

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

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

We reported no 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>
14.218	Community Development Block Grants/Entitlement Grants
20.205	Highway Planning and Construction

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.

STATUS OF PRIOR FEDERAL AUDIT FINDINGS

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: 01/01/2013- 12/31/2013	Report Ref. No: 1012708	Finding Ref. No: 1	CFDA Number(s): 66.120
Federal Program Name and Granting Agency: Puget Sound Watershed Management Assistance – U.S. Environmental Protection Agency		Pass-Through Agency Name: NA	
Finding Caption: The City does not have adequate internal controls to ensure compliance with the federal suspension and debarment requirements.			
Background: In 2013, the City spent approximately \$323,772 in federal Environmental Protection Agency (EPA) money for planning future land-use and environmental restoration projects in the Gorst Watershed area. The City entered into a contract in 2012 with one company to provide design and engineering consulting on the project. All of the 2013 expenditures reported on the Schedule of Expenditures of Federal Awards are related to this contract. Recipients of federal grants are prohibited from contracting with or making sub-awards 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 sub-recipient or vendor. The City did not verify the vendor on this project was not suspended or debarred from participating in federally funded grant projects prior to awarding the contract.			
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>Controls were implemented to institute the suspension and debarment language for all consultant agreements. During the review of the contract the City ensures the contractor has acknowledged the suspension and debarment requirements.</i>			

Audit Period: 01/01/2013- 12/31/2013	Report Ref. No: 1012708	Finding Ref. No: 2	CFDA Number(s): 14.218
Federal Program Name and Granting Agency: Community Development Blocks Grants/Entitlement Grants – U.S. Department of Housing and Urban Development		Pass-Through Agency Name: NA	
Finding Caption: The City does not have adequate internal controls to ensure compliance with the federal suspension and debarment requirements.			
Background: <p>In 2013, the City spent approximately \$449,951 in federal Housing and Urban Development (HUD) money for community development. In 2013, five sub-recipients were awarded contracts ranging from approximately \$10,000 to \$39,600 each to support development of communities in the City of Bremerton that will benefit low- to moderate- income families. The City spent approximately \$114,273 related to these five sub-awards in 2013.</p> <p>Recipients of federal grants are prohibited from contracting with or making sub-awards to parties that are suspended or debarred from doing business with the federal government. If a vendor or sub-recipient 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 sub-recipient or vendor.</p> <p>The City did not verify the sub-recipients were not suspended or debarred from participating in federally funded programs prior to awarding the contracts.</p>			
Status of Corrective Action: (check one) <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			
Corrective Action Taken: <i>The City has updated its project file checklist to include reviewing federal suspension and debarment of all sub-recipients of HUD Block Grant funds. Checklist will be included in and used to ensure completeness of every sub-recipient file.</i>			

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

**City of Bremerton
Kitsap County
January 1, 2014 through December 31, 2014**

Council
City of Bremerton
Bremerton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bremerton, Kitsap County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 21, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 21, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**City of Bremerton
Kitsap County
January 1, 2014 through December 31, 2014**

Council
City of Bremerton
Bremerton, Washington

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

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, 2014. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 21, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Bremerton Kitsap County January 1, 2014 through December 31, 2014

Council
City of Bremerton
Bremerton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bremerton, Kitsap County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 16.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bremerton, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 21, 2015

FINANCIAL SECTION

**City of Bremerton
Kitsap County
January 1, 2014 through December 31, 2014**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2014

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
– General Fund – 2014

Statement of Net Position – Proprietary Funds – 2014

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2014

Statement of Cash Flows – Proprietary Funds – 2014

Statement of Net Position – Fiduciary Funds – 2014

Notes to Financial Statements – 2014

REQUIRED SUPPLEMENTARY INFORMATION

LEOFF 1 Retiree Medical Benefits – Schedule of Funding Progress – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014

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, 2014. 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 2014, the assets of the City exceeded its liabilities by \$266.4 million. The net investment in capital assets accounts for 87 percent of this amount (\$231.7 million). Net position restricted primarily for construction projects, debt service, Community Development Block Grant (CDBG) programs, tourism promotion, worker's compensation liability and public safety account for another 4.3 percent of this amount (\$11.4 million). The remaining net assets of \$23.3 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net position increased by \$4.1 million 1.5% during the fiscal year. The governmental net position increased by \$2.8 million (2.9%) from the amount reported in 2013. Business-type net position increased by \$1.3 million .75%. The Business-type increase included net income before contributions and transfers for the Water utility of \$2.25 million, Wastewater utility of \$3.80 million other non-major proprietary funds of \$.10 and Golf Course \$.057
- As of December 31, 2014, the City's governmental funds reported a combined fund balance of \$10.3 million, a decrease of .2% from the prior year end. The fund balance of the General Fund decreased by \$73,169 while the remaining non-major governmental funds had a fund balance increase of \$53,275. \$3.0 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 \$7.3 million of unrestricted fund balance \$2.6 million has been committed or assigned for specific purposes while \$4.7 million is unassigned and available to the City for future appropriation.
- At the end of 2014, the unassigned fund balance of the General Fund was \$4.7 million or approximately 14.5 percent of total General Fund expenditures of \$32.6 million. The General Fund's unassigned fund balance decreased by \$68,428 from the prior year's amount of \$4.79 million, a 1.4 percent decrease.
- The City's total outstanding debt increased by \$2.3 million 3.8% during the current fiscal year to \$62.9 million. General obligation debt decreased by \$1.5 million and revenue debt increased by \$3.8 million. This increase in Revenue debt was attributable to the issuance \$6.88 million in revenue bonds for the Water and Wastewater utility.
- The City's net investment in Capital Assets increased \$3.2 million 1.1% in 2014. Total Capital assets from governmental activities increased \$2.4 million or 2.1%. Total Capital assets from business type activities increased \$.865 or .49%. The Governmental increases are primarily due to the Lower Wheaton Way and Pacific Avenue road reconstruction projects totaling \$4.35 million. \$5.72 million was spent on Business Activities for water, wastewater and stormwater capital improvements identified within the City's 2014 capital improvement plan.

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, and human resources), community development, public safety (police and fire), utilities and environment, transportation, economic environment, and culture and recreation. The City's business-type activities are limited to the City's municipal golf course and water, wastewater and stormwater utility activities. Governmental activities are primarily supported by taxes, charges for services, and grants while business-type activities are self-supporting through user fees and charges.

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

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

Fund Financial Statements

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

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

governmental fund statements and the government-wide financial statements are included with the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances.

The City maintained twenty-five (25) individual governmental funds in 2014. The City's General fund is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are combined into a single column labeled "Other Governmental Funds". Information for each of the non-major governmental funds is provided in the combining statements in this report.

The City maintains budgetary control over its operating funds through the adoption of an annual budget. Budgets are adopted at the department and category group level by fund in accordance with City code and state law. A budgetary comparison statement for major governmental funds is presented with the basic financial statements. Budgetary comparison statements for other governmental funds are included with the combining statements.

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

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

The City's five (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 utilities. The remaining enterprise funds are combined into a single column labeled "Non-major Enterprise Funds". Information for each of the non-major enterprise funds is provided in the combining statement in this report.

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 position

The statement of net position can serve as a useful indicator of the City's financial position. The City's net position at December 31, 2014 totaled \$266 million. Following is a condensed version of the government-wide statement of net position. The City presents its financial statements in compliance with Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Two years of financial information in the GASB 34 format are presented.

Net Position

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2014	2013	Difference	2014	2013	Difference	2014	2013	Difference
Current Assets	\$ 16,698	\$ 16,061	\$ 637	\$ 20,830	\$ 22,808	\$ (1,978)	\$ 37,528	\$ 38,869	\$ (1,341)
Restricted Assets	3,074	3,191	(117)	8,512	1,747	6,765	11,586	4,938	6,648
Capital Assets	113,413	111,045	2368	175,346	174,478	868	288,759	285,523	3,236
Other Noncurrent Assets	1,741	1,014	727	419	691	(272)	2,160	1,705	455
Total assets	134,926	131,311	3,615	205,107	199,724	5,383	340,033	331,035	8,998
Deferred outflows of resources	-	1,120	(1,120)	153	179	(26)	153	1,299	(1,146)
Current Liabilities	3,639	2,749	890	1,438	1,566	(128)	5,077	4,315	762
Payable from Restricted Assets	-	-	-	40	81	(41)	40	81	(41)
Noncurrent Liabilities	34,578	35,764	(1,186)	34,031	29,772	4,259	68,609	65,536	3,073
Total liabilities	38,217	38,513	(296)	35,509	31,419	4,090	73,726	69,932	3,794
Deferred inflows of resources	14	15	(1)	-	-	-	14	15	(1)
Net position									
Net Investment in Capital Assets	83,690	80,093	3,597	147,993	145,318	2,675	231,683	225,411	6,272
Restricted	3,767	4,105	(338)	7,648	1,779	5,869	11,415	5,884	5,531
Unrestricted	9,238	9,705	(467)	14,110	21,387	(7,277)	23,348	31,092	(7,744)
Total Net Position	\$ 96,695	\$ 93,903	\$ 2,792	\$ 169,751	\$ 168,484	\$ 1,267	\$ 266,446	\$ 262,387	\$ 4,059

The largest component of the City's net position, \$231.7 million (or 87%), is its investment in capital assets less any related outstanding debt issued to acquire those assets. These capital assets, such as utility plant, streets, trails, parks, fire and police vehicles, are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

Restricted net position consists of amounts legally or otherwise externally restricted for debt service and other programs. Of the \$3.8 million of governmental restrictions, \$1.7 million or 46.2% is restricted for the construction of capital assets. \$.960 million are special revenues restricted primarily for use in the Community Development Block Grant program 25.4%, for public safety services 19.4%, tourism promotion 4.7% and workers compensation liability 2.6%. 1.4%, \$.055 million is restricted for debt service on outstanding debt. \$7.6 million of business-type restrictions are reserves required for debt service payments and asset replacement. A total of \$14.1 million represents the unrestricted net position of the City's business-type activities and may only be spent on golf course operations, water, wastewater and other utility activities. Maintenance of utility delivery systems (water lines, pump station, wells), storm drain flushing, water meter reading, and capital construction projects, such as well rehabilitation, are examples of utility activities. Other functions of the City may access the remaining \$9.2 million to meet ongoing obligations to citizens and creditors. Examples of other City obligations which this remaining amount may be used for are: public safety employee salaries, parks maintenance (mowing, fence repair, etc.), and ongoing street maintenance (street sweeping, restriping, resurfacing, etc.).

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

Changes in net position

The Changes in Net Position table illustrates the increase or decrease in net position of the City resulting from its operating activities. The City's overall financial position improved in 2014 with net position increasing approximately \$3.4 million before prior period adjustments. The net position of governmental activities increased by \$2.9 million and the net position of business-type activities increased by \$.553 million.

Following is a condensed version of the City's changes in net position. The table shows the revenues, expenses, and related changes in net position in tabular form for the governmental activities separate from the business-type

activities. The graphs that follow compare program revenues to program expenses and illustrate the revenues by source separately for the governmental and business-type activities.

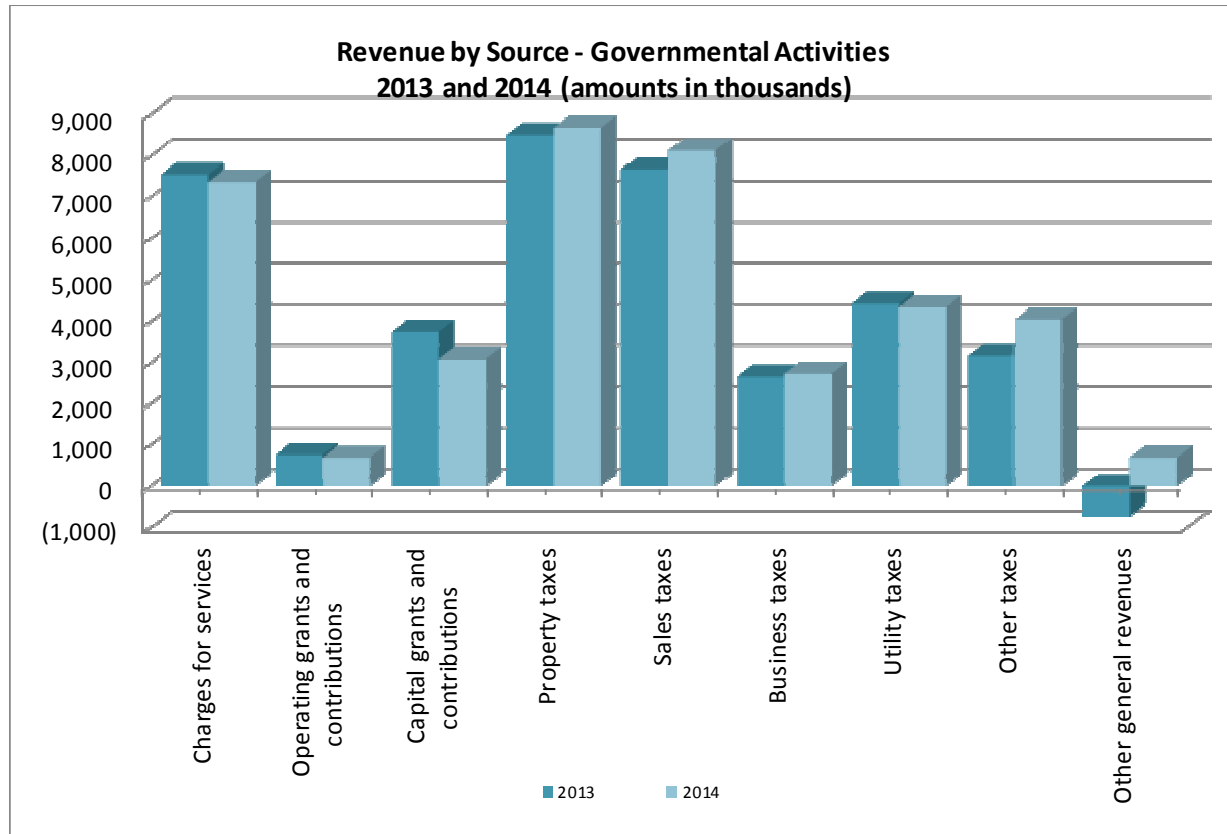
Changes in Net Position

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2014	2013	Difference	2014	2013	Difference	2014	2013	Difference
Revenues									
Program revenues									
Charges for services	\$ 7,375	\$ 7,554	\$ (179)	\$ 31,021	\$ 29,197	\$ 1,824	\$ 38,396	\$ 36,751	\$ 1,645
Operating grants and contributions	687	756	(69)	-	392	(392)	687	1,148	(461)
Capital grants and contributions	3,073	3,752	(679)	1,387	3,878	(2,491)	4,460	7,630	(3,170)
General revenues									
Property taxes	8,688	8,512	176	-	-	-	8,688	8,512	176
Sales taxes	8,130	7,679	451	28	30	(2)	8,158	7,709	449
Business taxes	2,734	2,665	69	4	4	-	2,738	2,669	69
Utility taxes	4,332	4,416	(84)	-	-	-	4,332	4,416	(84)
Other taxes	4,045	3,147	898	-	-	-	4,045	3,147	898
Other general revenues	692	(721)	1,413	532	475	57	1,224	(246)	1,470
Total revenues	\$ 39,756	\$ 37,760	\$ 1,996	\$ 32,972	\$ 33,976	\$ (1,004)	\$ 72,728	\$ 71,736	\$ 992
Expenses									
Governmental activities									
General government	3,898	3,353	545	-	-	-	3,898	3,353	545
Public safety	24,348	23,337	1,011	-	-	-	24,348	23,337	1,011
Utilities and environment	-	220	(220)	-	-	-	-	220	(220)
Transportation	5,802	4,459	1,343	-	-	-	5,802	4,459	1,343
Economic Environment	1,890	1,814	76	-	-	-	1,890	1,814	76
Culture and recreation	6,128	5,992	136	-	-	-	6,128	5,992	136
Interest on long-term debt	1,215	1,222	(7)	-	-	-	1,215	1,222	(7)
Business-type activities									
Water	-	-	-	10,223	9,277	946	10,223	9,277	946
Wastewater	-	-	-	10,129	9,946	183	10,129	9,946	183
Golf course	-	-	-	3,827	4,008	(181)	3,827	4,008	(181)
Other proprietary funds	-	-	-	1,823	2,152	(329)	1,823	2,152	(329)
Total expenses	\$ 43,281	\$ 40,397	\$ 2,884	\$ 26,002	\$ 25,383	\$ 619	\$ 69,283	\$ 65,780	\$ 3,503
Excess of revenues over expenses	(3,525)	(2,637)	(888)	6,970	8,593	(1,623)	3,445	5,956	(2,511)
Transfers	6,417	5,492	925	(6,417)	(5,492)	(925)	-	-	-
Change in net position	2,892	2,855	37	553	3,101	(2,548)	3,445	5,956	(2,511)
Net position - beginning	93,903	91,292	2,611	168,484	165,531	2,953	262,387	256,823	5,564
Prior period adjustment	(100)	(244)	144	714	(148)	862	614	(392)	1,006
Net position - ending	\$ 96,695	\$ 93,903	\$ 2,792	\$ 169,751	\$ 168,484	\$ 1,267	\$ 266,446	\$ 262,387	\$ 4,059

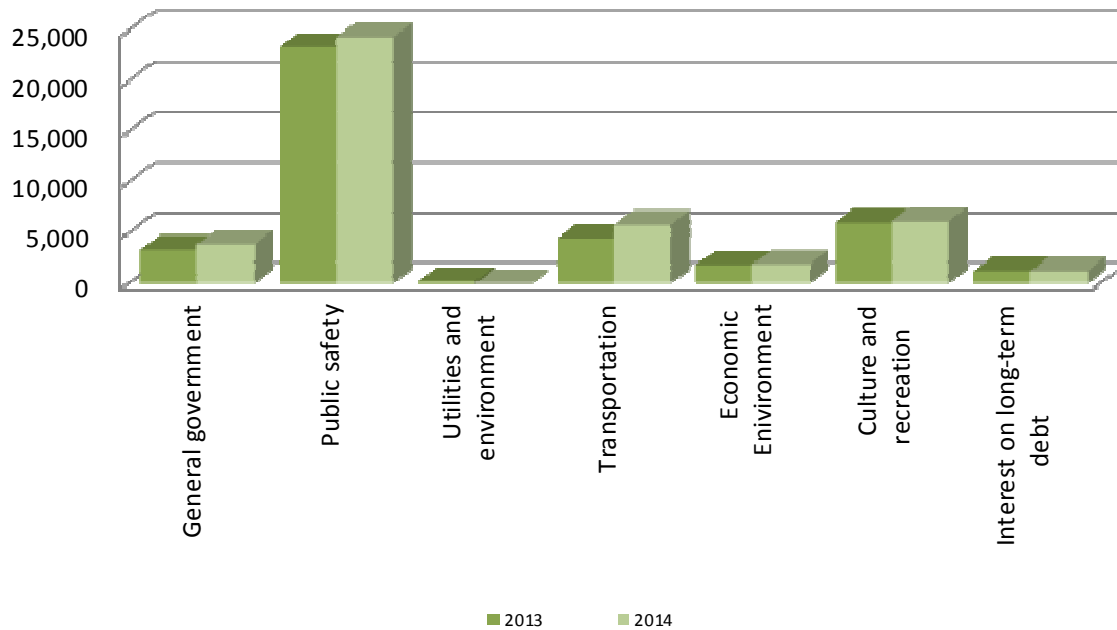
Governmental activities accounted for an increase of \$2.79 million of the total change in net position of \$4.1 million. Significant elements of the increase are as follows:

- Transfers continued to play a significant role in the increase to net position in 2014 increasing by \$.925 million. Transfers from Business-type activities increased in 2014. Transfers of \$1,164,677 from the Water, Wastewater and Stormwater funds to the Lower Wheaton Way fund in support of utility work performed during the road reconstruction project was the major item contributing to the increase.
- Expenditures increased by 7.1% in 2014 compared to 2013. Small changes occurred in many functional areas, as a significant effort was made to match available resources. Expenditure increases in Public Safety due to an increase in salaries and supplies in police. \$165,545 was attributable to filling vacant positions and \$131,226 in supplies. The jail contract increased by \$351,543 with Kitsap County. Lastly there was an increase in fire overtime in the amount of \$128,472. Transportation increase was a result of a significant increase in the Transportation Benefit District activity in 2014. The increase in expenditures was \$500,000.
- Total revenue from governmental activities in 2014 increased by \$2 million from 2013. Program revenues had decreases in charges for services in the amount of .180 million or 2.4%. Program revenue for operating and capital grants decreased \$.750 million or (16.6%). Tax revenues that support ongoing operations increased by \$1.5 million or 5.7% in 2014 from the 2013 level. Sales taxes increased \$.451 million or 5.9%. Business taxes increased by \$68,680 or 2.6%. Property, utility, and other taxes increased \$.990 million or 6.1% with the largest increase being other general taxes \$.898 million which included real estate excise tax increase of .307 million. Other general revenues which include interest earnings, gains and losses on disposal of assets, and miscellaneous income, increased by \$1.4 million due to a loss of \$1.0 million in 2013 on disposal of capital assets.

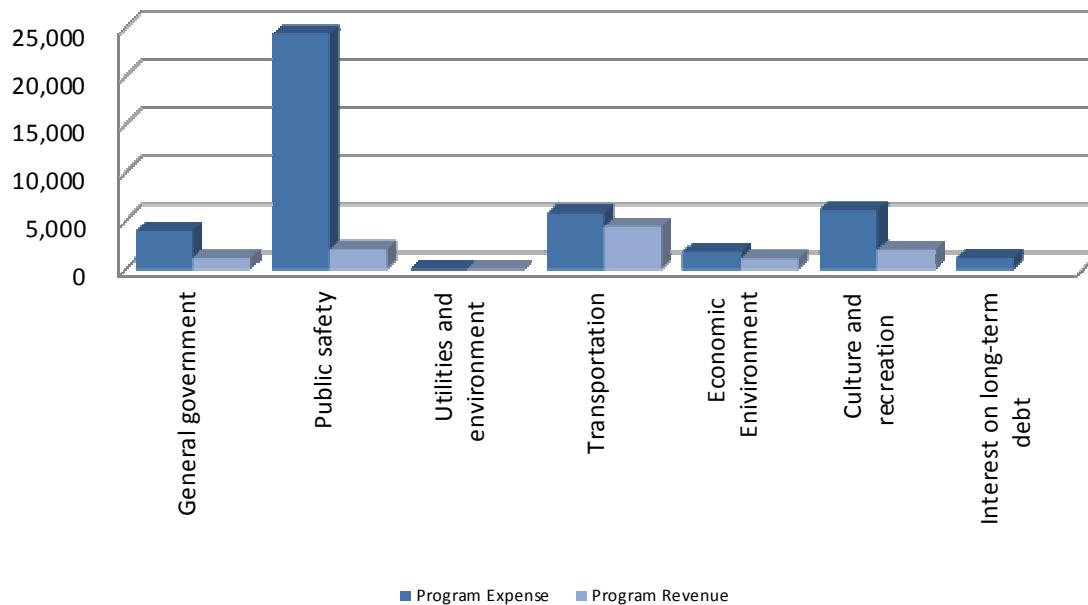
- Governmental activities were reduced by \$100,372 in 2014 by a prior period adjustment, a result of an adjustment to payment in lieu of taxes from the utilities to the general fund \$23,863, a change from an expense reimbursement to a re-class to revenue for the conference center expansion \$49,341, and an adjustment to 2013 workers compensation liability (\$173,576).



Expenditures by Type - Governmental Activities
2013 and 2014
(amounts in thousands)

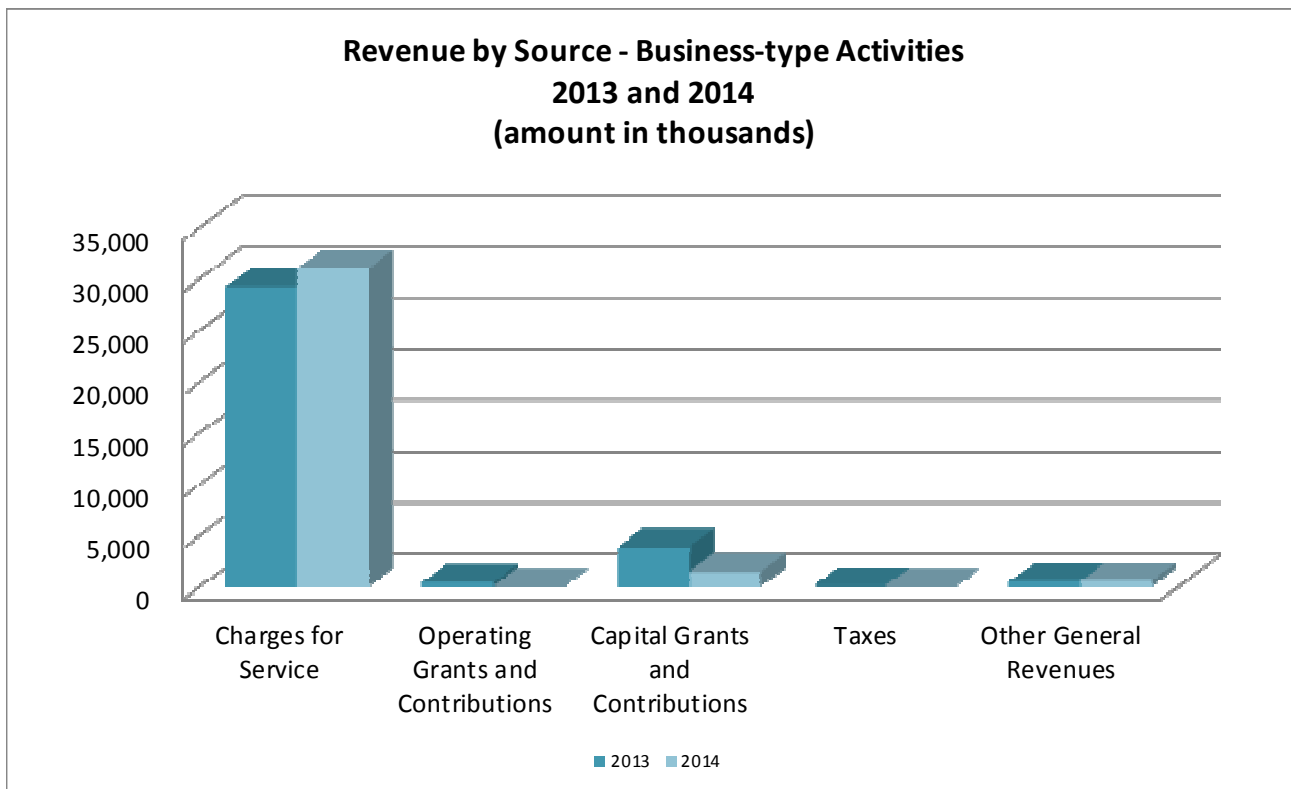


Program Expenses and Revenues - Governmental Activities
Year Ended 2014
(amounts in thousands)



Business-type activities increased City's net position by \$552,558, before prior period adjustments, accounting for approximately 16% of the total growth in the government's net position.

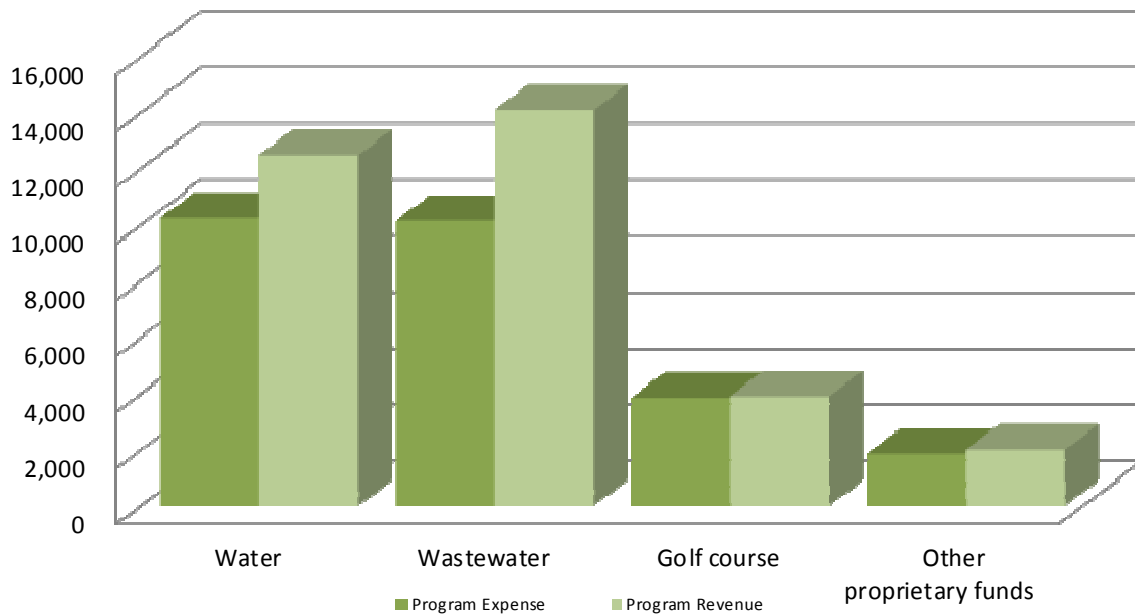
- Charges for services increased \$1.8 million in 2014. This was largely the result of rate increases in the Water, Wastewater and Stormwater funds of 9%, 3% and 3%, respectively, effective January 1, 2014. Stormwater increases were offset by the write-off of \$788,710 owed from the Port of Bremerton as approved in an Interlocal Agreement.
- Expenses for Business-Type activities increased \$.619 million in 2014. \$511,775 of this increase is attributable to a Water Reservoir Rehab maintenance project.
- Transfers to Governmental Activities increased by \$925,000 in 2014. This increase was largely attributable to transfers from the utility funds of \$1.2 million to Lower Wheaton Way and \$295,000 to Washington Ave. Connector to fund utility improvements associated with the street restoration projects.
- Business-Type activities net position was increased by \$1.27 million in 2014 due to prior period adjustments. \$677,680 of this increase was attributable to the refunding of overpayments of excise taxes paid to the State Department of Revenue by the Wastewater fund.

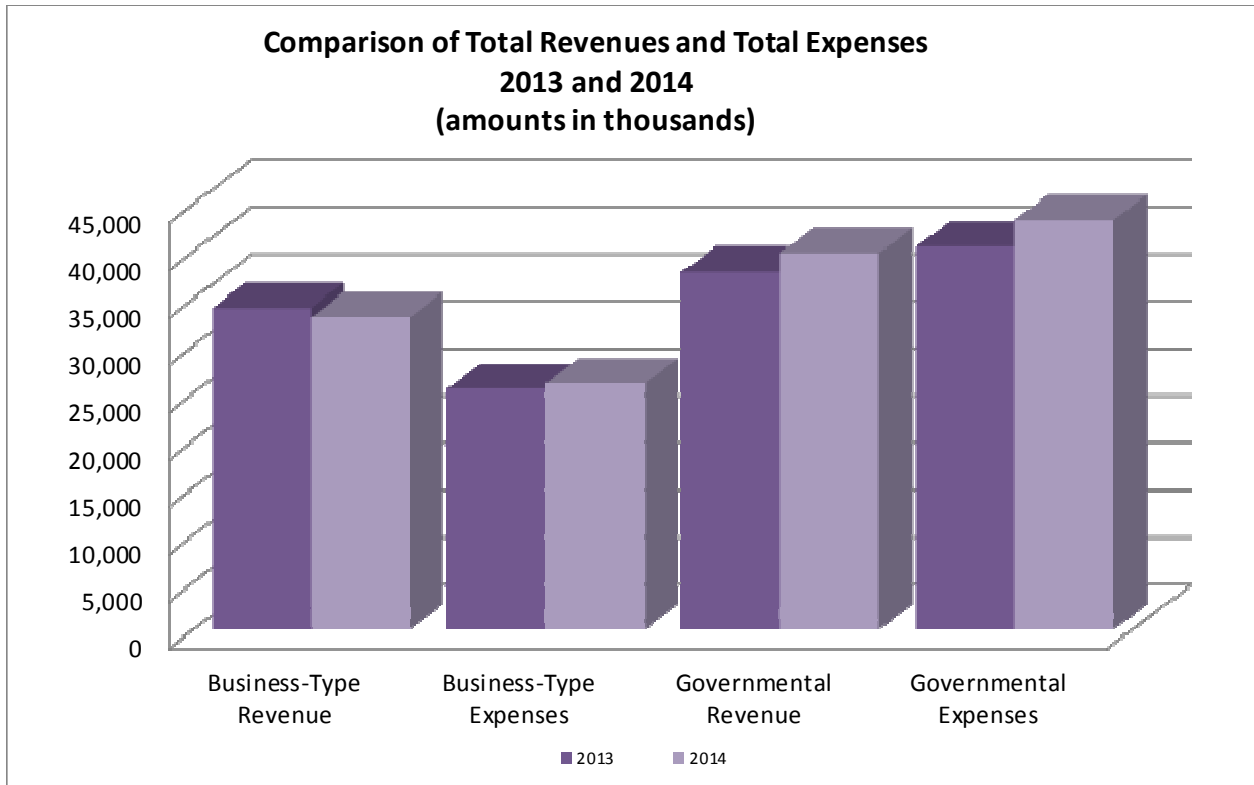


**Expenses by Fund - Business-type
2014 and 2013
(amounts in thousands)**



**Expenses and Program Revenues - Business-type Activities
for Year Ended December 31, 2014
(amounts in thousands)**





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 2014, the fund balance of the General Fund was \$4.8 million. As a measure of the fund's liquidity, the 2014 ending fund balance is 14.7% of the fund's 2014 expenditures, a decrease of .9% over 2013's 15.6%.

The General Fund balance decreased in 2014 by \$.073 million. Revenues increased from \$27.9 million in 2013 to \$28.4 million in 2014. Expenditures increased from \$31.3 million to \$32.6 million during the same period. The increase in revenues was primarily attributable to an increase in sales tax revenue. A major component to the increase in expenditures is additional jail costs. Expenditures exceeded revenues in the General Fund by \$4.1 million in 2014 but were offset by net transfers and other financing sources of \$4 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 2014 capital improvement program there were no significant transactions pertaining to the proprietary funds.

General Fund Budget Variations

The General Fund collected revenues at 99.1% of the amended amount budgeted or \$.325 million less than budgeted. Expenditures for 2014 were 95.4% of the amended budget resulting in actual expenditures being \$1.68 million less than the budgeted amount. The negative revenue budget variance is substantially attributable to a decrease in anticipated charges for services. The positive expenditure budget variance is largely attributable to personnel cost savings in the Police and Fire Pension departments. In addition, Police, General Facilities, Engineering and Community Development departments all had significant savings in expenditures for supplies.

The General Fund budget was balanced in 2014. The original budget provided for a decrease to the fund balance of \$1,153,705. The budget was amended two times during 2014. The final amended budget provided for a decrease to fund balance of \$1,438,885. At the conclusion of 2014, the General Fund decreased fund balance by \$63,213.

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, 2014, amounts to \$288.8 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, construction in progress, utility transmission/distribution systems, roads and intangibles.

The major capital asset additions for governmental activities during 2014 was the reconstruction of Lower Wheaton Way street restoration and the Washington Avenue project.

The major capital assets changes for business-type activities included the construction of wastewater and water capital improvement projects identified within the City's 2014 capital improvement plan.

Capital Assets (net of depreciation)

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2014	2013	Difference	2014	2013	Difference	2014	2013	Difference
Land	\$ 20,402	\$ 20,402	\$ -	\$ 9,277	\$ 9,117	\$ 160	\$ 29,679	\$ 29,519	\$ 160
Buildings	51,039	51,728	(689)	33,146	34,015	(869)	84,185	85,743	(1,558)
Improvements/Infrastructure	34,568	31,555	3,013	96,576	95,798	778	131,144	127,353	3,791
Machinery and Equipment	2,362	3,062	(700)	32,137	32,535	(398)	34,499	35,597	(1,098)
Construction in Progress	5,037	4,298	739	4,033	3,013	1,020	9,070	7,311	1,759
Intangibles	5	-	5	176	-	176	181	-	181
TOTAL	\$ 113,413	\$ 111,045	\$ 2,368	\$ 175,345	\$ 174,478	\$ 867	\$ 288,758	\$ 285,523	\$ 3,235

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

Long-term debt

For business type activities in 2014, the City issued Revenue bonds for the Water and Wastewater Utility funds in the amount of \$6,880,000 for capital related expenses on September 23, 2014. The interest rate on the bonds are 3.85% with a maturity date of December 1, 2034.

Outstanding Debt - General Obligation and Revenue Bonds

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2014	2013	Difference	2014	2013	Difference	2014	2013	Difference
General Obligation Bonds	\$ 30,015	\$ 31,240	\$ (1,225)	\$ 4,755	\$ 4,985	\$ (230)	\$ 34,770	\$ 36,225	\$ (1,455)
General Obligation Notes	-	35	(35)	-	-	-	-	35	(35)
Revenue Bonds	-	-	-	9,715	3,210	6,505	9,715	3,210	6,505
Revenue Loans	-	-	-	18,440	21,143	(2,703)	18,440	21,143	(2,703)
TOTAL	\$ 30,015	\$ 31,275	\$ (1,260)	\$ 32,910	\$ 29,338	\$ 3,572	\$ 62,925	\$ 60,613	\$ 2,312

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

Economic Factors and Next Year's Budgets and Rates

Several factors that affect the economic climate in Bremerton were considered when preparing the City's 2015 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 slightly due to the major effort to rehabilitate Bremerton's downtown core and attract new investors to the community. In addition, the national, regional and local economic conditions began to show improvement during 2014.

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 and the Lower Wheaton Way and Washington Ave Pedestrian Access funds. Future outside funding opportunities will be highly competitive and Bremerton, due to its current economic demographics, should compete very well for certain projects. 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. At 12/31/14 \$1,065,047 in fees had been collected. The TBD Board has adopted a work plan that includes various repairs on substandard city streets as well as contribution of matching funds toward a major road restoration of Lower Wheaton Way.

Bremerton continues to move forward with a revitalization and development program that will extend to all areas of the community. The initial project was the Bremerton Harborside Development which was designed to establish the City of Bremerton as a premier waterfront community in the Puget Sound.

Revitalization efforts are a product of both public and private investment. Public investment in this multi-year effort includes the construction or renovation of facilities to provide city services including new police, fire, court and administrative buildings, the construction of 2 new parks and the renovation of several major parks, the construction of a conference center and the addition of two public parking facilities as well as transportation and utility projects all designed to improve the lives of city residents. Other public investment includes a mixed use redevelopment project (Bay Vista) by the Bremerton Housing Authority and construction of a marina on the downtown waterfront by the Port of Bremerton. Private investment has included the construction of new commercial buildings for business and recreational purposes as well as new single family and multifamily residential projects.

Economic development is a critical component to achieving a recovery from years of economic depression and to mitigate for the revenue losses incurred over the past several years from statewide initiatives. Initiative 695 and 747 resulted in losses of ongoing revenues and limited property tax growth for Washington cities, including Bremerton. These statewide initiatives have impacted current and future revenues that fund the City of Bremerton's governmental services. The ability of Bremerton to provide sufficient funding for future core government services will be impacted

by the success of its economic development efforts. However, these efforts alone will be insufficient to fund these core services without the identification and implementation of additional revenue sources.

In May 2012, the City began a yearlong comprehensive rate analysis on its Water, Wastewater, and Stormwater utilities, to include an analysis of its revenue and capital requirements for a minimum six year horizon. As a result of a yearlong comprehensive rate analysis on its Water, Wastewater and Stormwater utilities the City Council adopted the analysis and the first of planned annual rates increases on April 3, 2013 to adequately fund the operations and maintenance, capital, and the anticipated debt service needs for the three utilities. Rates were increased again on January 1, 2014 to keep up with the funding requirements of the utilities. The analysis anticipated the issuance of up to a maximum of \$35 million in revenue bonds over six years. In 2014 the City issued \$6.88 million in Revenue bonds to finance identified capital improvements.

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 Position
December 31, 2014**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash & Cash Equivalents	\$ 4,749,092	\$ 6,102,250	\$ 10,851,342
Investments	6,873,260	8,256,423	15,129,683
Receivables	4,316,052	4,672,320	8,988,372
Internal balances	(342,100)	342,100	-
Due from other governments	661,030	82,582	743,612
Inventories	111,870	1,351,832	1,463,702
Prepayments	329,092	22,375	351,467
Restricted assets:			
Cash & Cash Equivalents	1,611,900	7,283,027	8,894,927
Investments	935,011	993,865	1,928,876
Receivables	130,099	234,877	364,976
Due from other governments	396,820	-	396,820
Notes and contracts receivable:			
Due within one year	46,000	51,453	97,453
Due in more than one year	649,820	368,028	1,017,848
Capital assets net of depreciation	113,413,602	175,345,716	288,759,318
Other assets	1,044,966	-	1,044,966
Total assets	\$ 134,926,514	\$ 205,106,848	\$ 340,033,362
Deferred outflows of resources	\$ -	\$ 153,589	\$ 153,589
Liabilities			
Accounts payable and other current liabilities	\$ 2,502,201	\$ 761,580	\$ 3,263,781
Employee wages payable	1,028,069	399,912	1,427,981
Other accrued liabilities	108,836	154,500	263,336
Custodial accounts	-	122,209	122,209
Noncurrent liabilities			
Payable from restricted assets	-	40,143	40,143
Due within one year	4,058,559	3,849,805	7,908,364
Due in more than one year	30,519,999	30,181,385	60,701,384
Total liabilities	\$ 38,217,664	\$ 35,509,534	\$ 73,727,198
Deferred inflows of resources	\$ 13,500	\$ -	\$ 13,500
Net Position			
Net investment in capital assets	\$ 83,690,399	\$ 147,992,658	\$ 231,683,057
Restricted for:			
Tourism promotion & facilities	177,349	-	177,349
Community development block grant	959,923	-	959,923
Public safety	731,622	-	731,622
Debt service	54,857	1,930,465	1,985,322
Workers compensation	100,000	-	100,000
Capital projects	1,743,302	5,717,757	7,461,059
Unrestricted	9,237,898	14,110,023	23,347,921
Total Net Position	\$ 96,695,350	\$ 169,750,903	\$ 266,446,253

See accompanying notes to the financial statements.

Statement of Activities
For the Year Ended December 31, 2014

Function/Program	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 3,898,120	\$ 1,180,590	\$ -	\$ -	\$ (2,717,530)	\$ -	\$ (2,717,530)
Public safety	24,347,998	2,094,513	69,851	3,982	(22,179,652)	-	(22,179,652)
Utilities and environment	-	182,893	-	-	182,893	-	182,893
Transportation	5,801,997	1,804,669	-	2,574,854	(1,422,474)	-	(1,422,474)
Economic environment	1,889,697	521,773	616,571	-	(751,353)	-	(751,353)
Culture and recreation	6,127,784	1,590,804	-	493,783	(4,043,197)	-	(4,043,197)
Interest on long-term debt	1,214,965	-	-	-	(1,214,965)	-	(1,214,965)
Total governmental activities	43,280,561	7,375,242	686,422	3,072,619	(32,146,278)	-	(32,146,278)
Business-type activities							
Water	10,222,657	11,577,833	-	896,323	-	2,251,499	2,251,499
Wastewater	10,128,629	13,761,541	-	318,398	-	3,951,310	3,951,310
Golf course	3,827,264	3,883,331	-	-	-	56,067	56,067
Other proprietary funds	1,823,388	1,798,240	-	172,029	-	146,881	146,881
Total business-type activities	26,001,938	31,020,945	-	1,386,750	-	6,405,757	6,405,757
Total government	\$69,282,499	\$38,396,187	\$ 686,422	\$ 4,459,369	\$(32,146,278)	\$ 6,405,757	\$(25,740,521)
General Revenues							
Taxes:							
Property					8,688,122	-	8,688,122
Sales					8,129,965	28,022	8,157,987
Business					2,733,787	3,915	2,737,702
Utility					4,332,386	-	4,332,386
Other					4,045,311	-	4,045,311
Unrestricted investment interest					124,227	88,521	212,748
Miscellaneous					359,720	338,798	698,518
Gain/(Loss) on disposal of capital assets					208,367	104,498	312,865
Transfers, internal activities					6,416,953	(6,416,953)	-
Total general revenues and transfers					35,038,838	(5,853,199)	29,185,639
Change in net position					2,892,560	552,558	3,445,118
Net position-beginning					93,903,162	168,484,295	262,387,457
Prior period adjustment					(100,372)	714,050	613,678
Net position-ending					\$ 96,695,350	\$ 169,750,903	\$266,446,253

See accompanying notes to the financial statements.

Balance Sheet
Governmental Funds
December 31, 2014

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and equivalents	\$ 2,089,617	\$ 2,757,734	\$ 4,847,351
Investments	2,798,632	2,975,008	5,773,640
Receivables, net	3,798,094	626,008	4,424,102
Due from other funds	512,840	184,203	697,043
Due from other governments	36,606	982,527	1,019,133
Inventories	20,060	-	20,060
Other assets	-	695,820	695,820
Total assets	<u>9,255,849</u>	<u>8,221,300</u>	<u>17,477,149</u>
Deferred outflows of resources	-	-	-
Total assets and deferred outflows of resources	<u>\$ 9,255,849</u>	<u>\$ 8,221,300</u>	<u>\$ 17,477,149</u>
LIABILITIES, DEFERRED INFLOW of RESOURCES and FUND BALANCES			
Liabilities:			
Accounts/contracts payable	\$ 723,160	\$ 1,468,546	\$ 2,191,706
Due to other funds	832,522	246,803	1,079,325
Employee wages payable	934,418	59,505	993,923
Other current liabilities	93,748	15,088	108,836
Unearned revenue	1,862,382	928,267	2,790,649
Total liabilities	<u>4,446,230</u>	<u>2,718,209</u>	<u>7,164,439</u>
Deferred inflows of resources	<u>13,500</u>	<u>-</u>	<u>13,500</u>
Fund balances:			
Nonspendable	\$ 20,060	\$ -	\$ 20,060
Restricted	50,179	2,923,689	\$ 2,973,868
Committed	-	652,253	\$ 652,253
Assigned	-	1,927,149	\$ 1,927,149
Unassigned	4,725,880	-	\$ 4,725,880
Total fund balances	<u>4,796,119</u>	<u>5,503,091</u>	<u>10,299,210</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 9,255,849</u>	<u>\$ 8,221,300</u>	<u>\$ 17,477,149</u>

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

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	113,413,602
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	2,694,516
Internal service funds are used by management to charge the costs of certain activities to individual funds. These assets and liabilities are included in governmental activities in the statement of assets.	2,839,253
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(32,551,231)</u>
Net position of governmental activities	<u>\$ 96,695,350</u>

See accompanying notes to the financial statements.

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
for the Year Ended December 31, 2014**

	General Fund	Other Governmental Funds	Governmental Funds Total
REVENUES			
Taxes			
Property	\$ 7,929,239	\$ 901,456	\$ 8,830,695
Sales	7,355,104	809,184	8,164,288
Business	7,066,174	-	7,066,174
Other	123,721	1,779,893	1,903,614
Licenses and permits	1,025,164	281,595	1,306,759
Intergovernmental	974,294	5,036,325	6,010,619
Charges for services	2,775,977	303,298	3,079,275
Fines and forfeitures	923,186	337,283	1,260,469
Miscellaneous	265,832	1,764,819	2,030,651
Total revenues	<u>28,438,691</u>	<u>11,213,853</u>	<u>39,652,544</u>
EXPENDITURES			
Current:			
General government	4,468,793	244,997	4,713,790
Public safety	22,175,166	338,503	22,513,669
Utilities and environment	23,165	-	23,165
Transportation	531,924	3,704,737	4,236,661
Economic environment	1,406,815	240,828	1,647,643
Mental/physical health	73,642	201,235	274,877
Culture and recreation	3,802,306	678,027	4,480,333
Debt service:			
Principal	35,000	1,225,000	1,260,000
Interest and other debt issue costs	636	1,191,620	1,192,256
Capital outlay	52,611	5,975,958	6,028,569
Total expenditures	<u>32,570,058</u>	<u>13,800,905</u>	<u>46,370,963</u>
Excess (deficiency) of revenues over expenditures	<u>(4,131,367)</u>	<u>(2,587,052)</u>	<u>(6,718,419)</u>
OTHER FINANCING SOURCES (USES)			
Capital asset donations & disposal	161,294	38,256	199,550
Insurance recoveries	684	8,133	8,817
Transfers in	4,338,392	3,760,241	8,098,633
Transfers out	(466,035)	(1,215,644)	(1,681,679)
Total other financing sources and uses	<u>4,034,335</u>	<u>2,590,986</u>	<u>6,625,321</u>
Net change in fund balances	(97,032)	3,934	(93,098)
Fund balances-beginning	4,869,288	5,449,816	10,319,104
Prior period adjustments	23,863	49,341	73,204
Fund balances-ending	<u>\$ 4,796,119</u>	<u>\$ 5,503,091</u>	<u>\$ 10,299,210</u>

See accompanying notes to the financial statements.

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

For the Year Ended December 31, 2014

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

Net change in fund balances – total government funds	\$ (93,098)
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.	2,370,146
Revenues and expenses in the statement of activities that do not provide current financial resources are not reported in the funds.	(913,663)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, government funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,228,711
Internal service funds are used by management to charge the costs of fleet maintenance and risk management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	300,464
Change in net position of governmental activities	\$ 2,892,560

See accompanying notes to the financial statements

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual General Fund
for the Year Ended December 31, 2014

	Original Budget 2014	Final Budget 2014	Actual 2014	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 22,063,669	\$ 22,413,669	\$ 22,474,238	\$ 60,569
Licenses and permits	961,170	961,170	1,025,164	63,994
Intergovernmental	693,866	833,866	974,294	140,428
Charges for services	5,247,027	5,261,027	4,764,439	(496,588)
Fines and forfeitures	953,700	953,700	923,186	(30,514)
Other revenues	4,392,308	4,580,539	4,517,248	(63,291)
Total revenues	34,311,740	35,003,971	34,678,569	(325,402)
EXPENDITURES				
City Council	333,798	333,798	327,218	6,580
Executive	352,718	350,518	339,669	10,849
Finance	1,355,912	1,390,462	1,309,507	80,955
Legal	1,047,962	1,047,962	993,449	54,513
Human Resources	396,814	491,430	449,694	41,736
Community development	1,488,959	1,488,959	1,327,821	161,138
Municipal Court	1,433,194	1,433,194	1,349,402	83,792
City Auditor	173,168	183,668	180,116	3,552
Law enforcement	9,971,864	10,006,864	9,600,915	405,949
Fire/Emergency medical services	8,570,885	8,707,340	8,703,899	3,441
Police & fire pension	2,213,100	2,206,100	1,975,927	230,173
Facilities	1,044,652	1,049,652	846,689	202,963
Parks and recreation	2,733,070	2,746,046	2,661,331	84,715
Engineering	2,025,255	2,125,255	1,872,395	252,860
Non-departmental	2,324,094	2,881,608	2,827,613	53,995
Total expenditures	35,465,445	36,442,856	34,765,645	1,677,211
Excess (deficiency) of revenues over expenditures	(1,153,705)	(1,438,885)	(87,076)	1,351,809
Fund balances-beginning	4,123,627	4,665,826	4,709,108	43,282
Prior period adjustments	-	-	23,863	23,863
Fund balances-ending	\$ 2,969,922	\$ 3,226,941	\$ 4,645,895	\$ 1,418,954

Adjustment to reflect consolidation of Contingency Reserve and Conference Center activity included in the General Fund of the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental funds.

\$ 150,224

Fund Balances Ending

\$ 4,796,119

EXPENDITURES

Personnel	26,910,068	27,128,894	26,278,246	850,648
Supplies, services & taxes	8,032,432	8,713,986	7,921,816	792,170
Capital expenditure	117,945	87,000	52,611	34,389
Debt Service	-	107,976	107,972	4
Transfers	405,000	405,000	405,000	-
Total expenditures	35,465,445	36,442,856	34,765,645	1,677,211

See accompanying notes to the financial statements.

**Statement of Net Position
Proprietary Funds
December 31, 2014**

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Other Proprietary	Total	Internal Service Funds
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 1,863,744	\$ 112,287	\$ 1,450,421	\$ 798,468	\$ 4,224,920	\$ 3,290,971
Restricted cash	1,545,507	-	5,737,520	-	7,283,027	100,000
Investments	2,505,236	150,935	2,003,459	1,073,296	5,732,926	4,558,128
Restricted Investments	76,828	-	917,037	-	993,865	-
External receivables	1,765,685	-	2,451,124	483,796	4,700,605	2,492
Restricted special assessments receivables	151,694	-	-	-	151,694	-
Interest receivables	6,467	378	7,315	2,688	16,848	11,417
Due from other funds	243,679	-	459	139,440	383,578	751,935
Due from other governments	-	-	-	82,582	82,582	-
Inventories	655,522	183,493	512,817	-	1,351,832	91,810
Prepayments	-	22,375	-	-	22,375	329,092
Total current assets	8,814,362	469,468	13,080,152	2,580,270	24,944,252	9,135,845
Noncurrent assets:						
Restricted special assessments	83,183	-	-	-	83,183	-
Notes and contracts receivable	368,028	-	-	-	368,028	-
Capital assets net of depreciation	62,028,740	7,211,052	96,399,618	6,104,853	171,744,263	3,601,453
Other noncurrent assets	-	-	-	-	-	-
Total noncurrent assets	62,479,951	7,211,052	96,399,618	6,104,853	172,195,474	3,601,453
Total assets	71,294,313	7,680,520	109,479,770	8,685,123	197,139,726	12,737,298
Deferred outflows of resources	-	153,589	-	-	153,589	-
Total assets and deferred outflows	\$ 71,294,313	\$ 7,834,109	\$ 109,479,770	\$ 8,685,123	\$ 197,293,315	\$ 12,737,298
LIABILITIES						
Current liabilities:						
Accounts/contract payable	369,105	101,088	236,712	54,486	761,391	71,948
Due to other funds	161,387	210,756	303,823	65,079	741,045	12,186
Due to other governments	-	-	-	3,573	3,573	-
Employee wages payable	345,051	132,463	279,914	88,521	845,949	97,405
Other accrued liabilities	27,713	32,798	88,442	1,974	150,927	290,304
Current portion of long-term debt	678,705	245,000	2,465,550	9,864	3,399,119	-
Bonds payable from restricted assets	40,143	-	-	-	40,143	-
Custodial accounts	106,854	14,855	-	500	122,209	-
Total current liabilities	1,728,958	736,960	3,374,441	223,997	6,064,356	471,843
Noncurrent liabilities:						
Claims and judgments payable	-	-	-	-	-	708,923
Bonds, notes and loans payable	5,076,964	4,510,000	20,350,958	88,778	30,026,700	-
Compensated absences	76,311	-	64,453	18,570	159,334	9,301
Total noncurrent liabilities	5,153,275	4,510,000	20,415,411	107,348	30,186,034	718,224
Total liabilities	6,882,233	5,246,960	23,789,852	331,345	36,250,390	1,190,067
Deferred inflows of resources	-	-	-	-	-	-
Total liabilities and deferred inflows	\$ 6,882,233	\$ 5,246,960	\$ 23,789,852	\$ 331,345	\$ 36,250,390	\$ 1,190,067
NET POSITION						
Net investment in capital assets	57,372,624	2,456,052	78,556,319	6,006,210	144,391,205	3,601,453
Restricted for capital assets	979,515	165,234	4,573,008	-	5,717,757	-
Restricted for debt service	329,008	-	1,601,457	-	1,930,465	-
Restricted for Worker's Compensation	-	-	-	-	-	100,000
Unrestricted	5,730,933	(34,137)	959,133	2,347,569	9,003,498	7,845,778
Total net position	\$ 64,412,080	\$ 2,587,149	\$ 85,689,917	\$ 8,353,779	\$ 161,042,925	\$ 11,547,231
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					\$ 8,707,978	
Net position of business-type activities					\$ 169,750,903	
See accompanying notes to the financial statements.						

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
for the Year Ended December 31, 2014

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Other Proprietary	Total	Internal Service Funds
OPERATING REVENUES						
Charges for services	\$ 9,953,655	\$ 3,883,331	\$ 13,772,715	\$ 1,791,343	\$ 29,401,044	\$ 4,137,848
Other operating revenue	1,624,178	-	20,763	6,897	1,651,838	-
Total operating revenues	11,577,833	3,883,331	13,793,478	1,798,240	31,052,882	4,137,848
OPERATING EXPENSES						
General operations	2,754,285	66,060	2,647,607	438,281	5,906,233	2,842,882
Contracted Operations	-	3,437,885	-	-	3,437,885	-
Maintenance	2,990,206	-	1,990,193	783,928	5,764,327	-
Customer service and marketing	391,145	-	252,137	118,470	761,752	-
General administration	1,108,748	-	965,333	260,979	2,335,060	316,410
Depreciation and amortization	2,012,698	164,120	3,508,651	116,483	5,801,952	597,396
Property, excise and B&O taxes	461,423	-	260,121	21,842	743,386	-
Risk transfer payments	-	-	-	-	-	504,565
Payments to claimants & beneficiaries	-	-	-	-	-	196,154
Total operating expenses	9,718,505	3,668,065	9,624,042	1,739,983	24,750,595	4,457,407
Operating income (loss)	1,859,328	215,266	4,169,436	58,257	6,302,287	(319,559)
NONOPERATING REVENUES (EXPENSES)						
Interest and investment revenue	41,128	1,325	18,331	8,811	69,595	28,618
Interest expense	(92,937)	(159,199)	(353,482)	(4,143)	(609,761)	-
Gain (loss) on capital asset disposal	155,697	-	(49,897)	(1,302)	104,498	(34,708)
Other nonoperating revenue/expense	286,075	-	13,529	39,194	338,798	3,458
Total nonoperating revenues (expenses)	389,963	(157,874)	(371,519)	42,560	(96,870)	(2,632)
Income (loss) before contributions and transfers	2,249,291	57,392	3,797,917	100,817	6,205,417	(322,191)
Capital contributions	896,323	-	318,398	172,029	1,386,750	-
Transfers to other funds	(1,866,360)	-	(3,516,737)	(1,165,830)	(6,548,927)	-
Transfers from other funds	-	-	-	-	-	131,973
Special items (Note)	-	-	-	-	-	-
Change in net position	1,279,254	57,392	599,578	(892,984)	1,043,240	(190,218)
Total net position - beginning	63,156,689	2,468,069	84,412,659	9,248,218	159,285,635	11,911,025
Prior period adjustment	(23,863)	61,688	677,680	(1,455)	714,050	(173,576)
Total net position - ending	\$ 64,412,080	\$ 2,587,149	\$ 85,689,917	\$ 8,353,779	\$ 161,042,925	\$ 11,547,231
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					(490,682)	
Change in net position of business-type activities.					\$ 552,558	

See accompanying notes to the financial statements.

Statement of Cash Flows
Proprietary Funds
for the Year Ended December 31, 2014

Page 1 of 2

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Other Proprietary	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 9,934,891	\$ 3,889,452	\$ 13,820,961	\$ 2,343,518	\$ 29,988,822	\$ 4,137,912
Cash payments to suppliers	(4,300,841)	(3,531,151)	(3,758,815)	(767,293)	(12,358,100)	(2,013,473)
Cash payments to employees	(3,241,900)	-	(2,492,683)	(876,333)	(6,610,916)	(1,159,952)
Purchase of insurance	-	-	-	-	-	(504,565)
Payment for insurance claims	-	-	-	-	-	(299,733)
Other operating receipts and payments	1,624,178	-	20,763	59,392	1,704,333	-
Net cash provided by operating activities	4,016,328	358,301	7,590,226	759,284	12,724,139	160,189
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfer ins	-	-	160,634	-	160,634	-
Transfer outs	(1,964,340)	-	(3,512,690)	(1,265,143)	(6,742,173)	-
Other nonoperating revenues/expenses	307,568	-	744,971	199	1,052,738	3,457
Net cash provided (used) by noncapital financing activities	(1,656,772)	-	(2,607,085)	(1,264,944)	(5,528,801)	3,457
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition and construction of capital assets	(3,392,147)	(67,991)	(2,085,784)	(104,267)	(5,650,189)	(840,037)
Proceeds/costs on sale of assets	-	-	19,650	-	19,650	28,175
Capital contributions	449,645	-	318,398	75,161	843,204	-
Insurance recoveries	-	-	-	-	-	1,813
Collections on notes receivable	58,825	-	-	-	58,825	-
Loan/grant proceeds	-	-	-	361,816	361,816	-
Bond proceeds	2,125,040	-	5,315,209	-	7,440,249	-
Bond issuance costs	(22,804)	-	(57,043)	-	(79,847)	-
Principal paid bonds	(41,000)	(230,000)	(334,000)	-	(605,000)	-
Principal paid on other debt	(578,705)	(51,577)	(2,114,521)	(9,864)	(2,754,667)	-
Interest paid on bonds and other debt	(89,085)	(134,327)	(348,247)	(4,340)	(575,999)	-
Net cash provided (used) for capital and related financing activities	(1,490,231)	(483,895)	713,662	318,506	(941,958)	(810,049)
CASH FLOW FROM INVESTING ACTIVITIES						
Proceeds from repayment of loans	12,336	-	-	-	12,336	52,187
Net change in investments	365,378	73,122	(378,428)	112,667	172,739	433,511
Proceeds from special assessments	-	-	-	-	-	-
Issuance of interfund loans	-	-	-	-	-	(115,000)
Interest on loans and investments	14,362	1,485	17,118	8,724	41,689	29,184
Net cash provided (used) in investing activities	392,076	74,607	(361,310)	121,391	226,764	399,882
Net increase (decrease) in cash and cash equivalents	1,261,401	(50,987)	5,335,493	(65,763)	6,480,144	(246,521)
Cash and equivalents - beginning	2,147,850	163,274	1,852,448	864,231	5,027,803	3,637,492
Cash and equivalents - ending	\$ 3,409,251	\$ 112,287	\$ 7,187,941	\$ 798,468	\$ 11,507,947	\$ 3,390,971
Cash at the end of the year consists of:						
Operating fund cash	1,863,744	112,287	1,450,421	798,468	4,224,920	3,290,971
Restricted cash	1,545,507	-	5,737,520	-	7,283,027	100,000
Total cash at end of year	\$ 3,409,251	\$ 112,287	\$ 7,187,941	\$ 798,468	\$ 11,507,947	\$ 3,390,971

See accompanying notes to the financial statements.

**Statement of Cash Flows
Proprietary Funds
for the Year Ended December 31, 2014**

Page 2 of 2

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Other Proprietary	Total	Internal Service Funds
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ 1,859,328	\$ 215,266	\$4,169,436	\$ 58,257	\$ 6,302,287	\$ (319,559)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	2,012,698	164,120	3,508,651	116,483	5,801,952	597,396
Abandonment of capital project	62,545	-	82,195	-	144,740	-
Decrease (increase) in receivables	(28,868)	-	48,246	552,175	571,553	(2,492)
Decrease (increase) in due from other funds/govt	-	(49,771)	-	52,495	2,724	11,643
Decrease (increase) in prepaid expenses	-	5,563	-	-	5,563	49,184
Decrease (increase) in inventory	5,158	-	(64,996)	-	(59,838)	(1,883)
Increase (decrease) in accounts payable	81,995	(11,160)	(231,433)	(30,300)	(190,898)	(55,095)
Increase (decrease) in due to other funds/govt	-	(5,593)	-	-	(5,593)	10,275
Increase (decrease) in employee wages payable	(14,910)	33,755	43,351	49,040	111,236	(928)
Increase (decrease) in employee leaves payable	28,278	-	34,776	(38,866)	24,188	2,169
Increase (decrease) in other payables	-	6,121	-	-	6,121	(130,521)
Increase (decrease) in revenues collected in advance	10,104	-	-	-	10,104	-
Net cash provided by operating activities	<u>\$ 4,016,328</u>	<u>\$ 358,301</u>	<u>\$7,590,226</u>	<u>\$ 759,284</u>	<u>\$ 12,724,139</u>	<u>\$ 160,189</u>
Noncash investing, capital and financial activities						
Developers contributed infrastructure	\$ 571,154	\$ -	\$ -	\$ -	\$ 571,154	\$ -

See accompanying notes to the financial statements.

Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2014

	Agency Funds
Assets	
Cash and cash equivalents	\$ 326,833
Total assets	<u>\$ 326,833</u>
 Deferred outflows of resources	 <u>\$ -</u>
 Liabilities	
Accounts/contracts payable	30,982
Other current liabilities	<u>295,851</u>
Total liabilities	<u>\$ 326,833</u>
 Deferred outflows of resources	 <u>\$ -</u>

See accompanying notes to the financial statements.

Notes to Financial Statements

January 1, 2014 – December 31, 2014

1. Summary of significant accounting policies

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

A. Reporting Entity

The City of Bremerton was incorporated on October 14, 1901 and operates under the laws of the State of Washington applicable to a home-rule charter city with a Council/Mayor form of government. The City is a general purpose government which provides police, fire, water, wastewater, street maintenance, parks and recreation, planning and zoning, municipal court and general governmental services to its citizens. As required by GAAP, the financial statements present the City, the primary government, and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

In 2009, the City established the Bremerton Transportation Benefit District (TBD) that meets the criteria of a component unit. See Note 7 for discussion of the TBD.

B. Government-wide and fund financial statements

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

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

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

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 general obligation debt except those required to be accounted for in another fund.

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

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

Non-major Enterprise funds account for the operations, maintenance and capital additions of the City's stormwater utility.

Internal service funds account for the accumulation of funds used to repair City vehicles and equipment and to replace them at the end of their useful lives. Funds are also accumulated for the purpose of carrying out the city's Risk Management, Information Technology Services, 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 connection with a proprietary fund's principal ongoing operations. Operating revenues includes charges for services rendered for water, sewer, stormwater as well as golf fees and timber revenues. Operating expenses include administration, operations and maintenance expenses and depreciation on capital assets. All revenues and expenses not falling into the above broad categories are reported as non-operating revenues and expenses.

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for all funds except fiduciary fund types. All appropriations lapse at the end of each year. The budget is prepared using a basis of accounting substantially the same as the GAAP basis used in accounting for governmental funds. The budgetary basis of accounting differs from generally accepted accounting principles. The city budgets the Contingency Reserve and Conference Center activities as if they were special revenue funds. However, GAAP requires these activities to be reported 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 revisions within a fund or any revisions that alter the total expenditures of a fund, or affect the number of authorized employee positions or salary ranges must be approved by the City Council. The City's budget was amended two times in 2014.

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

E. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. At December 31, 2014, the City was holding \$8,007,454 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds.

The amounts reported as cash and cash equivalents also include compensating balances maintained with the City's bank in lieu of payments for services rendered. The average compensating balance maintained during 2014 was \$5,200,066.

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

2. Investments - See Note 3 Deposits and Investments.

3. Receivables

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

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. As of December 31, 2014, \$83,183 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.

4. Amounts Due To and From Other Funds and Governments

Amounts due to and from other funds include interfund loans receivable/payable as well as outstanding balances that have resulted from the provision of services between funds as well as corrections of prior transactions. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*. A summary schedule of interfund loans receivable and payable is furnished in Note 14.

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

5. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are purchased. The portion of fund balance not available for future expenditure is included in the non-spendable category of fund balance. A comparison to market value is not considered necessary.

In proprietary funds, a perpetual inventory is maintained, in which the cost is capitalized when inventory items are purchased, and expensed when the item is consumed. Inventory is recorded by the FIFO (first in first out) method which approximates market value.

6. Restricted Assets and Liabilities

These accounts contain resources for programs, construction, replacement, and debt service, including current and delinquent special assessments receivable in enterprise funds. Related liabilities are shown as *Payable from Restricted Assets*. Specific debt service reserve requirements are described in Note 10, *Long-Term Debt*.

Restricted assets are composed of the following:

Governmental type:

Cash and investments - Construction	\$ 1,151,007
Cash and investments - HUD programs	217,867
Cash and investments - Public safety	730,628
Cash and investments - Public Television	114,157
Investments - Workers compensation	100,000
Cash and investments - Tourism promotion	152,287
Cash and investments - Debt Service	80,965
External receivables - Tourism promotion	25,062
External receivables - Construction	76,092
External receivables - Debt Service	28,945
Due from other governments - HUD	92,236
Due from other governments - Construction	304,584
Total governmental	<u>\$ 3,073,830</u>

Business type:

Investments - Debt service	\$ 2,415,921
Investments - Construction	5,860,971
Receivables - Debt service	234,877
Total business	<u>\$ 8,511,769</u>

7. Capital Assets. See Note 5, *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 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The cost of normal maintenance and repairs are not capitalized.

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

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

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

8. Other Noncurrent Assets

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

9. Deferred outflow of resources

A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. This account includes the portion of a loss on the refunding of debt attributable to future periods.

10. Compensated Absences

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

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

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

Non-exempt employees may request compensatory time off in lieu of overtime payment. Unused compensatory time is cashed out upon termination based on wages at that time. The City records a liability for all outstanding compensatory

time. Compensatory time is accrued at a rate of one and one-half hours for each hour of overtime worked up to the following maximums allowed:

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

Compensatory time may be carried over from year to year.

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

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

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

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

11. Other Current/Accrued Liabilities

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

12. Long-term Debt See Note 10, *Long-Term Debt*.

13. Unearned revenue

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

14. Deferred inflow of resources

A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. This account includes grants received in advance of the start date and deferred gains on refunding attributable to future periods.

15. Fund Balance Classification, Details, and Minimum Fund Balance

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

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

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

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

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

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

	General Fund	Other Funds	Total
Fund balances:			
Nonspendable:			
Inventory	\$ 20,060	\$ -	\$ 20,060
Restricted for:			
Tourism promotion & facilities		177,349	\$ 177,349
Community development block grant		310,103	\$ 310,103
Public safety		730,628	\$ 730,628
Debt service		59,731	\$ 59,731
Capital projects	50,179	1,645,878	\$ 1,696,057
Committed to:			
Employee Wellness		5,110	5,110
Parks		85,999	85,999
Building Abatement		101,180	101,180
Public Access Television		368,165	368,165
Public safety		40,373	40,373
Public art		51,426	51,426
Assigned to:			
Street Operations		446,629	446,629
Tourism promotion & facilities		24,011	24,011
Parking System		326,424	326,424
Building Abatement		272,500	272,500
Court Improvement		4,717	4,717
Debt Service		159,386	159,386
Park Capital		133,075	133,075
Capital Improvements		560,407	560,407
Unassigned:	4,725,880		4,725,880
Total Fund Balances	\$ 4,796,119	\$ 5,503,091	\$ 10,299,210

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 operating cash and investment balances as a percentage of budgeted operating expenditures for the City's General, Water, Wastewater, Stormwater and Golf Course funds. The following table shows the status at December 31, 2014.

Fund	Target Rate	Target Balance	Balance 12/31/2014
General	8.5%	\$ 3,092,543	\$ 4,034,026
Water	12%	1,247,912	3,282,043
Wastewater	12%	1,818,999	3,493,912
Stormwater	12%	283,146	328,531
Golf Course	12%	489,207	263,222

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. At 12/31/14 the balance was \$677,340. The fund balance of this management fund is reported as part of the General Fund. The 2015 budget includes \$50,000 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 position

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

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

Capital Assets of governmental funds net of depreciation	\$ 113,413,602
Net adjustment to increase fund balance - total governmental funds to arrive at net position of governmental activities	\$ 113,413,602

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	\$ 2,790,649
Investment interest accrued beyond the city's 30 day measurable and available period	14,460
Build America Bond subsidy beyond the city's 30 day measurable and available period	38,717
Deferred charge for bond issue costs	
Other post-employment benefits	(149,310)
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 2,694,516</u>

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

Net position of Internal service funds included in governmental activities	\$ 2,839,253
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 2,839,253</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	\$ (30,015,000)
Less: Issuance premiums	(753,169)
Add: Deferred amount on refunding	1,044,966
Accrued interest payable	(238,736)
Compensated absences	(2,589,292)
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ (32,551,231)</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 position of governmental activities as reported in the government-wide statement of activities. The details of the aggregated differences are presented below.

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

Capital outlay	\$ 6,028,569
Depreciation	(3,898,972)
Contributions of capital assets	240,549
Net adjustment to increase net change in fund balances - governmental funds to arrive at change in net position - governmental activities	<u>\$ 2,370,146</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	\$ 1,260,000
Unamortized debt issuance costs	(31,289)
Net adjustment to decrease net change in fund balances - governmental funds	
to arrive at change in net position of governmental activities	\$ 1,228,711

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	\$ 1,798
Change in deferred property taxes receivable	(142,573)
Change in court fines receivable	(13,103)
Change in block grant loans receivable	(167,099)
Change in parking/red light fines receivable	12,764
Change in BKAT contracts receivable	(46,000)
Change in Build America Bond subsidy receivable	(773)
Change in other post-employment benefits payable	(254,606)
Change in accrued interest payable	8,580
Change in compensated absences payable	(312,651)
Net adjustment to decrease net change in fund balances - governmental funds	
to arrive at change in net position of governmental funds	\$ (913,663)

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

Net revenue of risk management activities	\$ (86,205)
Net Revenue of employment security activities	97,235
Net Revenue of Accrued Leave activities	234,116
Net revenue of information technology activities	21,294
Net revenue of equipment maintenance activities	34,024
Net adjustment to decrease net change in fund balances - governmental funds	
to arrive at change in net position of governmental funds	\$ 300,464

3. Deposits and Investments

A. Deposits

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

B. Investments

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

Investment Type	Rating	Weighted Average Maturities	Fair Value	% of Portfolio
Cash & Cash Equivalents				
Washington State Local Government Inv. Pool	NR		\$ 14,830,405	
Cash on hand			5,242,697	
Total Cash & Cash Equivalents			20,073,102	
Investments				
US Agency securities				
Federal National Mortgage Assn	AA		1,983,100	12%
Federal Farm Credit Banks	AA		2,001,920	12%
Federal Home Loan Bank	AA		3,997,800	23%
Federal Home Loan Mortgage Corp	AA		5,092,140	30%
US Treasury	AA		3,983,600	23%
Total Investments			17,058,560	
Total Cash & Investments			37,131,662	

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. The City's investment policy states that (with the exception of U.S. Treasury securities and the State Investment Pool) no more than 30% of the City's total investment portfolio will be invested in a single security type or with a single financial institution. At 12/31/14 the portfolio was in compliance with this policy.

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.

4. Property Taxes

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

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 inflow of resources and recognized as revenue of the period to which they apply. No

allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

RCW 84.52.043 allows a city to levy taxes of up to \$3.375 per \$1,000 of taxable property in the city and RCW 41.14.060 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 2014, the Kitsap Regional Library District levied \$0.40 per \$1,000 of assessed valuation, and therefore the City's maximum levy rate is \$3.20 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 2014 was \$2.95 per \$1,000 on an assessed valuation of \$2.293 billion, for a total regular levy of \$6,764,817.

Special levies, approved by the voters are not subject to the above limitations. In 2014, the City levied an additional \$0.90 per \$1,000 for General Obligation Bonds and Emergency Medical Services, for a total additional levy of \$2,044,139.

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

5. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance 1/1/2014	Increases	Decreases	Ending Balance 12/31/2014
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 20,402,410	\$ -	\$ -	\$ 20,402,410
Construction in progress	4,298,236	6,028,570	5,289,376	5,037,430
Intangibles	-	4,500	-	4,500
Total capital assets, not being depreciated	24,700,646	6,033,070	5,289,376	25,444,340
Capital assets, being depreciated:				
Buildings/building improvements	63,542,467	621,603	-	64,164,070
Improvements other than buildings	20,042,822	2,005,795	1,144,030	20,904,587
Machinery and equipment	9,234,217	89,963	426,873	8,897,307
Infrastructure	41,869,770	4,343,074	-	46,212,844
Total capital assets, being depreciated	134,689,276	7,060,435	1,570,903	140,178,808
Less accumulated depreciation for:				
Buildings/buildings improvements	11,815,077	1,309,968	-	13,125,045
Improvements other than buildings	9,873,530	743,917	-	10,617,447
Machinery and equipment	6,171,799	399,549	35,892	6,535,456
Infrastructure	20,484,407	1,447,191	-	21,931,598
Total accumulated depreciation	48,344,813	3,900,625	35,892	52,209,546
Total capital assets, being depreciated, net	86,344,463	3,159,810	1,535,011	87,969,262
Governmental activities capital assets, net	\$ 111,045,109	\$ 9,192,880	\$ 6,824,387	\$ 113,413,602

Business-type Activities	Beginning Balance 1/1/2014	Increases	Decreases	Ending Balance 12/31/2014
Capital assets, not being depreciated:				
Land	\$ 9,116,693	\$ 160,636	\$ -	\$ 9,277,329
Construction in progress	3,013,357	6,014,146	4,994,882	4,032,620
Intangibles	7,500	3,256	-	10,756
Total capital assets, not being depreciated	12,137,550	6,178,038	- 4,994,882 -	13,320,705
Capital assets, being depreciated:				
Buildings/building improvements	54,471,375	168,976	-	54,640,351
Intangibles	439,409	14,209	-	453,618
Improvements other than buildings	139,649,115	3,518,795	294,984	142,872,926
Machinery and equipment	58,708,680	2,295,862	750,267	60,254,275
Total capital assets, being depreciated	253,268,580	5,997,842	1,045,251	258,221,171
Less accumulated depreciation for:				
Buildings/buildings improvements	20,456,222	1,038,036	-	21,494,258
Intangibles	277,571	10,874	414	288,031
Improvements other than buildings	43,850,752	2,709,665	263,243	46,297,174
Machinery and equipment	26,174,144	2,585,821	643,268	28,116,697
Total accumulated depreciation	90,758,689	6,344,396	906,925	96,196,160
Total capital assets, being depreciated, net	162,509,891	(346,554)	138,326	162,025,011
Business-type activities Capital assets, net	\$ 174,647,441	\$ 5,831,484	\$ 5,133,208	\$ 175,345,716

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

Governmental Activities:

General government	\$ 218,033
Public safety	495,781
Transportation, including depreciation of general infrastructure assets	1,588,863
Economic environment	348
Culture and recreation	1,595,947
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	1,653
Total depreciation expense - Governmental activities	<u>\$ 3,900,625</u>

Business-type activities:

Water	\$ 1,959,400
Wastewater	3,508,651
Stormwater	116,482
Golf	164,120
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	595,743
Total depreciation expense - Business-type activities	<u>\$ 6,344,396</u>

6. Construction Commitments

At December 31, 2014, the City had several construction projects underway. The following table contains the projects and status at year end.

Project	Spent to Date	Remaining Commitment
Chemical Resistant Building	-	13,340
Water System Scada Lifecycle Upgrade	119,816	488,183
LWW Bridge to Bridge	2,530,073	815,569
Washington Ave Sidewalk Connector	23,788	3,173,667
Burwell Tunnel	9,814	212,428
	<u>\$ 2,683,491</u>	<u>\$ 4,703,187</u>

7. Component Unit

On February 4, 2009, the City authorized and approved the creation of a Transportation Benefit District (TBD) 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 streets and related infrastructure. The TBD is an independent taxing district and was established primarily to benefit the City of Bremerton satisfying GASB Statement No. 14's criteria for the recognition of the TBD as a blended component unit of the City. Beginning fiscal year 2013, the TBD has enacted a \$20 per vehicle license fee to fund appropriate projects. In 2014, the TBD received total collections from vehicle license fees of \$444,012.10. \$742,003 was expended in 2014 on projects authorized by the board. A separately issued Bremerton Transportation Benefit District comprehensive annual financial report (CAFR) is available on the TBD's page on the City of Bremerton's website at BremertonWA.gov.

8. 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; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. 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 Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes; Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at the age of 55 with 25 years of service, or at age 60 with five years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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. The benefit 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, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit 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. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 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 of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. 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 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, if hired prior to May 1, 2013:

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

PERS Plan 2 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' fiscal year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

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 by 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.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 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 members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who 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 the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program 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.

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.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Active Plan Members Nonvested	101,191
Total	368,272

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. 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.

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 payrolls, as of December 31, 2014, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer *	9.21%**	9.21%**	9.21%**
Employee	6.00%****	4.92%****	*****

The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% 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*	11.71%	11.71%	11.71%**
Employer-Local Agency*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Agency	12.26%	12.30%	7.50%***

*The employer rates include the employer administrative expense fee currently set at 0.18%.

**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
2014	\$ 61,808	\$ 1,026,887	\$ 118,095
2013	\$ 60,423	\$ 886,733	\$ 110,633
2012	\$ 57,198	\$ 771,999	\$ 102,682

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

Plan Description

LEOFF was established in 1970 by the Legislature. Membership 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 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.

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.

LEOFF 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. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

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 there is an 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 there is 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 of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered 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 benefit or service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service, (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age 53 receive reduced

benefits. 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. Otherwise, the benefits are actuarially reduced 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 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. 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 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 catastrophically 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 benefit 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.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by 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 eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington state registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

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, 2013:

Retirees and Beneficiaries Receiving Benefits	10,511
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	699
Active Plan Members Vested	16,830
Active Plan Members Nonvested	1,600
Total	29,640

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. 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 recommendations 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. For DRS' fiscal year 2014, the state contributed \$55.6 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payrolls, as of December 31, 2014, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	5.23%**
Employee	0.00%	8.41%
State	N/A	3.36%

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for ports and universities is 8.59%

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
2014	\$ 217	\$ 573,936
2013	\$ 357	\$ 555,943
2012	\$ 545	\$ 549,928

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by 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 membership includes:

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

Covered employers include the following:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Spokane and Tacoma; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

To be eligible for PSERS, an employee must work on a full-time basis and:

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

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2014, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after completion of five years of eligible service.

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) 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, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. 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 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.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The benefit is 2 percent of the average final compensation (AFC) for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

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, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 75 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	43
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	119
Active Plan Members Vested	4,513
Active Plan Members Nonvested	1,383
Total	6,058

Funding Policy

Each biennium, the state Pension Funding Council adopts 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. 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 payrolls, as of December 31, 2014, are as follows:

	PSERS Plan 2
Employer*	10.54%
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
2014	\$ 12,964
2013	\$ 11,719
2012	\$ 10,667

9. 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 2014 insurance coverage and risk retention:

Risk	Coverage Limit Per Occurrence	Self-Insured Retention	Insurer
Excess liability	\$10,000,000	\$500,000	Lexington Insurance Company
Excess workers' compensation	Statutory	500,000	Midwest Employers Casualty Company
Blanket property	100,000,000	100,000	Lexington Insurance Company
Employee blanket bond	1,000,000	25,000	Great American Insurance Company
Pollution legal liability	1,000,000	100,000	Indian Harbor Insurance Company

The risk manager and claims administrators establish reserves for open claims on a case by case basis, after an assessment of each claim's settlement value. Actuarial techniques are used to estimate the long-term liability of the fund for both reported and unreported losses. As of December 31, 2014, the Risk Management Fund had cash and investment reserves of \$2,292,668. 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 Position for the Risk Management fund includes the unspent portion of this amount in prepayments. Long-term fund liabilities have been estimated at \$708,923. 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 \$290,076.

The following table shows the actual claims activity for 2013 and 2014:

	2013	2014
Claims liability - beginning of year	\$ 948,597	\$ 1,096,472
Claims incurred	296,185	413,780
Estimate change prior years	143,699	(271,143)
Payment on claims	(292,009)	(240,110)
Claims liability - end of year	<u>\$ 1,096,472</u>	<u>\$ 998,999</u>

10. 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 bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources. The revenue bonds are repaid with proprietary fund revenues.

General obligation bonds currently outstanding are as follows:

	Maturity Date	Interest Rate	Outstanding 12/31/2014
2010 LTGO BABS	09/01/35	3.61	\$ 6,140,000
2010 UTGO Refunding	12/01/27	3.07	8,705,000
2010 LTGO (B) BABS	12/01/30	3.42	2,020,000
2012 LTGO Refunding - Govt Center	12/31/21	4.00	4,905,000
2013 LTGOA Refunding - Conf Ctr Pkg	12/01/36	3.01	8,245,000
2013 LTGOB Refunding - Golf Course	12/01/28	3.01	4,755,000
Total General Obligation Bonds and Notes			\$ 34,770,000

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
2015	1,255,000	1,293,596	245,000	131,003
2016	1,310,000	1,259,207	285,000	128,920
2017	1,340,000	1,221,322	300,000	125,785
2018	1,390,000	1,178,063	315,000	121,585
2019-2023	7,670,000	5,092,446	1,665,000	505,135
2024-2028	8,435,000	3,207,736	1,945,000	228,975
2029-2033	5,860,000	1,397,362		
2034-2038	2,755,000	208,299		
Total	\$ 30,015,000	\$ 14,858,031	\$ 4,755,000	\$ 1,241,403

Revenue bonds and loans currently outstanding are as follows:

	Maturity Date	Interest Rate	Outstanding 12/31/2014
1995 PWTF Loan WWTP improvements	07/01/15	1.0	185,234
1996 PWTF Loan Callow Ave CSO I	07/01/16	1.0	302,890
1997 PWTF Loan Callow Ave CSO II	07/01/17	1.0	105,756
1998 PWTF Loan SR 303 water main	07/01/18	1.0	663,158
1999 PWTF Loan Tracyton water sys ph2	07/01/19	2.0	49,537
1999 PWTF Loan CSO design	07/01/20	1.0	243,962
2000 PWTF Loan Multi-Basin CSO	07/01/20	1.0	895,955
2000 PWTF Loan Callow CSO 3-5	07/01/20	1.0	1,340,577
2001 PWTF Loan East Bremerton CSO	07/01/21	0.5	1,108,333
2003 PWTF Loan Anderson Cove Basin 12	07/01/23	0.5	259,641
2003 PWTF Loan Naval Avenue	07/01/23	4.0	118,421
2004 PWTF Loan Brentwood storm drain red	07/01/24	4.0	98,642
2004 PWTF Loan Pacific Ave Basin CSO	07/01/24	0.5	699,773

2006 P WTF Loan WWTP upgrade	07/01/25	0.5	2,118,485
2007 P WTF Anderson Cove sewer PS CW1	07/01/27	0.5	461,842
2007 P WTF WWTP upgrades	07/01/27	0.5	117,397
1994 CCWF Loan Callow Ave CSO design	05/01/17	0.0	93,177
1997 CCWF Loan Callow Ave CSO I	07/31/18	4.8	754,802
1998 DWSRF Loan corrosion control facility	10/01/18	4.0	220,067
2009 DWSRF UV Treatment Upgrade (ARRA)	10/01/17	0.0	24,841
2001 DWSRF Loan Tracyton WD upgrade	10/01/21	2.5	977,076
2002 DWSRF Loan Eastside flow & pressure	10/01/22	2.5	488,162
2002 DWSRF Loan Casad Dam seismic upgrade	10/01/22	2.5	314,206
2003 DWSRF Loan Casad Dam intake tower	10/01/23	1.5	39,608
2003 DWSRF Loan Pump Station 4 upgrade	10/01/23	1.5	518,501
2004 DWSRF Loan Anderson Creek	10/01/24	1.5	53,818
2004 DWSRF Loan seismic upgrades	10/01/24	1.5	282,983
1999 WPCRF Loan CSO plan update	12/31/22	1.5	112,189
1999 WPCRF Loan Anderson Cove CSO	02/27/21	1.5	351,438
1999 WPCRF Loan Callow Ave CSO final	12/31/22	1.5	259,457
2002 WPCRF Loan Anderson CV CSO red	01/23/22	1.5	268,471
2002 WPCRF Loan Cherry/Trenton CSO red	10/15/24	1.5	563,265
2002 WPCRF Loan Trenton pump station	10/15/24	1.5	562,900
2002 WPCRF Loan Tracyton Beach CSO	12/31/25	1.5	342,993
2002 WPCRF Loan Anderson Cove Basin 12	12/31/26	1.5	167,509
2003 WPCRF Pacific Ave CSO red-sep	06/30/24	1.5	184,975
2003 WPCRF Loan Pacific Ave CSO reduction	12/31/27	1.5	737,824
2004 WPCRF Loan Cherry/Trenton CSO red-1	12/31/26	1.5	715,287
2007 WPCRF WWTP upgrade	01/01/29	2.6	496,370
2009 WPCRF Gorst Sewerage Constuction	12/31/30	1.4	505,500
2009 WPCRF Gorst Septic System Design	12/31/30	2.9	98,280
2009 WPCRF Gorst Sewerage Design	12/31/30	1.4	486,974
2013 WPCRF Gorst Sewerage Constuction	12/31/32	1.4	49,944
2007 W/S Refunding Revenue bond	12/01/21	4.3	2,835,000
2014 W/S Revenue Bond	12/01/34	3.9	6,880,000
Total revenue bonds and loans			<u>28,155,220</u>

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

Year Ending December 31	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2015	\$ -	\$ -	\$ 3,154,119	\$ 684,741
2016	-	-	3,010,038	577,614
2017	-	-	2,869,228	516,827
2018	-	-	2,857,592	456,052
2019	-	-	2,467,462	396,555
2020-2024	-	-	8,023,887	1,328,041
2025-2029	-	-	3,452,358	727,851
2030-2034	-	-	2,320,536	276,119
Total	\$ -	\$ -	\$ 28,155,220	\$ 4,963,800

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

At December 31, 2014, the city has \$219,117 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$1,733,240 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, 2014, \$8,410,000 of bonds outstanding are considered defeased.

11. Changes in Long Term Liabilities

During the year ended December 31, 2014, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2014	Additions	Reductions	Ending Balance 12/31/2014	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$ 31,240,000	\$ -	\$ 1,260,000	\$ 30,015,000	\$ 1,255,000
Notes Payable	35,000	-	35,000	-	-
Add unamortized premiums	796,739	-	43,569	753,170	43,569
Total bonds payable:	32,071,739	-	1,338,569	30,768,170	1,298,569
Claims and judgments	1,096,472	413,780	511,253	998,999	290,076
Compensated absences	2,343,175	2,361,394	2,042,718	2,661,851	2,320,604
Other Post Employment Benefits	(105,296)	1,515,169	1,260,563	149,310	149,310
Governmental activity long-term liabilities:	\$ 35,406,090	\$ 4,290,343	\$ 5,153,103	\$ 34,578,330	\$ 4,058,559
Business-type Activities:					
Bonds payable:					
General obligation bonds	\$ 4,985,000	\$ -	\$ 230,000	\$ 4,755,000	\$ 245,000
Revenue bonds	3,210,000	6,880,000	375,000	9,715,000	595,000
Add unamortized premiums	520,249	-	4,649	515,600	4,649
Total bonds payable:	8,715,249	6,880,000	609,649	14,985,600	844,649
Intergovernmental loans	21,143,310	-	2,703,090	18,440,220	2,559,119
Compensated Absences	513,673	470,190	378,492	605,371	446,037
Business-type activity long-term liabilities:	\$ 30,372,231	\$ 7,350,190	\$ 3,691,231	\$ 34,031,190	\$ 3,849,805

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 \$998,999 of Risk Management claims and judgments and \$72,559 of compensated absences are included in the above governmental activities amounts. Also, for the governmental activities, compensated absences are generally liquidated by the Accrued leave liability internal service fund and claims and judgments by the Risk Management internal service fund.

12. Contingencies and Litigation

As of December 31, 2014, there were a small number of claims for damages and lawsuits pending against the City. In the opinion of the City's legal counsel, neither the potential liability for any single claim or lawsuit, nor the aggregate potential liability arising from all actions currently pending would materially affect the financial condition of the City.

As discussed in Note 10, Long-Term Debt, the City is contingently liable for repayment of refunded debt.

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

13. Restricted Net Position

The government-wide statement of net position reports \$11,415,275 of restricted net position, all of which is restricted by enabling legislation and external contractual commitments.

14. Interfund Balances and Transfers

A. Interfund Balances

Interfund balances at December 31, 2014, were as follows:

		Due From							Total
		General Fund	Other Govt	Water	Waste-Water	Golf	Other Proprietary	Internal Service	
Due To	General Fund	\$ -	\$ 120,085	\$ 151,120	\$ 216,662	\$ -	\$ 19,122	\$ 5,851	\$ 512,840
	Other governmental funds	2,232	47,493	5,919	83,819	-	44,619	121	184,203
	Water	104,518	-	-	-	-	-	-	104,518
	Wastewater	-	167	-	-	-	-	292	459
	Other proprietary funds	62,269	77,171	-	-	-	-	-	139,440
	Internal Service	24,342	1,887	4,348	3,342	53,220	1,338	5,922	94,399
Total		\$ 193,361	\$ 246,803	\$ 161,387	\$ 303,823	\$ 53,220	\$ 65,079	\$ 12,186	\$ 1,035,859

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 2014. Interfund loans are approved by City Council Resolution and include a repayment date. The following schedule is a summary of loans outstanding at year end including the year of final payment.

			Loaned To		
Loaned From	Purpose	Yr of final Payment	General Fund	Golf Course	Total
Water	Park Land	2025	\$ 139,161	\$ -	139,161
Internal service	Equipment purchase	2016	-	157,536	157,536
Internal service	Conference Ctr Exp	2020	500,000	-	500,000
Total			\$ 639,161	\$ 157,536	\$ 796,697

B. Interfund Transfers

Interfund transfers at December 31, 2014 were as follows:

Transfer To	Transfer From					
	General Fund	Other Govt	Water	Waste-Water	Other Proprietary	Total
General Fund	\$ -	\$ -	\$ 1,366,011	\$ 2,748,534	\$ 130,274	\$ 4,244,819
Other governmental funds	355,000	1,076,679	500,348	636,230	1,035,556	3,603,814
Internal Service	-	-	-	131,973	-	131,973
Total	\$ 355,000	\$ 1,076,679	\$ 1,866,360	\$ 3,516,737	\$ 1,165,830	\$ 7,980,606

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.

Significant transfers during 2014 were as follows:

A total of \$1,414,677 was transferred into the Lower Wheaton Way Construction capital project fund from the Water (\$93,398), Wastewater (\$383,861) Stormwater (\$687,418) and TBD (\$250,000) funds. The transfers were to fund the City's portion of the reconstruction of the roadway and utilities on Lower Wheaton Way.

A total of \$295,000 was transferred into the Washington Ave. Connector capital project fund from the Water (\$50,000), Wastewater (\$200,000) and Stormwater (\$45,000) funds. The transfers were to fund the City's portion of the reconstruction of the roadway and utilities on Washington Avenue between 5th Street and the Manette Bridge.

\$4,850,400 was transferred from the City's three utilities to the General (\$4,060,661) and Street (\$789,739) funds for the payment in lieu of taxes levied on those funds. The transfers were from the Water (\$1,722,962), Wastewater (\$2,750,903) and Stormwater (\$376,535) proprietary funds.

15. Receivable and Payable Balances

A. Receivables

Receivables at December 31, 2014 were as follows:

	Accounts	Taxes	Special Assessments	Notes Contracts	Other	Total
Governmental Activities:						
General Fund	\$ 1,720,210	\$ 2,035,207	\$ -	\$ 42,677	\$ -	\$ 3,798,094
Non-major and other funds	223,083	306,381	-	96,544	-	626,008
Reconciliation of balances in fund financial statements to government-wide financial statements	2,492	-	-	695,820	19,557	717,869
Total governmental activities	\$ 1,945,785	\$ 2,341,588	\$ -	\$ 835,041	\$ 19,557	\$ 5,141,971
Business-Type Activities:						
Water	\$ 1,651,820	\$ -	\$ 234,877	\$ 481,893	\$ 6,467	\$ 2,375,057
Golf	-	-	-	-	378	378
Wastewater	2,450,062	-	-	1,063	7,314	2,458,439
Other Proprietary Funds	483,796	-	-	-	2,688	486,484
Reconciliation of balances in fund financial statements to government-wide financial statements	-	-	-	-	6,320	6,320
Total business-type activities	\$ 4,585,678	\$ -	\$ 234,877	\$ 482,956	\$ 23,167	\$ 5,326,678

B. Payables

Accounts Payable and other current liabilities at December 31, 2014 were as follows:

	Vendors	Retainage	Accrued Interest	Total
Governmental Activities:				
General Fund	\$ 723,160	\$ -	\$ -	\$ 723,160
Non-major and other funds	1,400,243	68,303	-	\$ 1,468,546
Reconciliation of balances in fund financial statements to government- wide financial statements	71,759	-	238,736	310,495
Total governmental activities	\$ 2,195,162	\$ 68,303	\$ 238,736	\$ 2,502,201
Business-Type Activities:				
Water	\$ 320,888	\$ 48,217	\$ -	\$ 369,105
Golf	101,088	-	\$ -	101,088
Wastewater	169,416	67,296	-	236,712
Other Proprietary funds	35,551	18,935	-	54,486
Reconciliation of balances in fund financial statements to government- wide financial statements	189	-	-	189
Total business-type activities	\$ 627,132	\$ 134,448	\$ -	\$ 761,580

16. 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 fifteen years as of January 1, 2012. 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 \$149,310 is included as a noncurrent liability on the Statement of Net Position.

	Fiscal Year Ending 12/31/14
Determination of Annual Required Contribution:	
Annual Normal Cost	\$ 1,492,940
Interest on Amortization Payment	(11,498)
Annual Required Contribution (ARC)	<u>\$ 1,481,442</u>
Determination of NET OPEB Obligation:	
Annual Required Contribution	\$ 1,481,442
Adjustment to ARC	33,727
Annual OPEB Cost	<u>\$ 1,515,169</u>
Contributions	<u>(1,260,563)</u>
Change in Net OPEB Obligations	\$ 254,606
Net OPEB Obligations - beginning of year	<u>\$ (105,296)</u>
Net OPEB Obligations - end of year	<u>\$ 149,310</u>

* Unfunded Actuarial Accrued Liability (UAAL)

The City's OPEB cost, the percentage OPEB cost contributed to the plan and the net OPEB Assets for 2014 and the preceding three years, was as follows:

Fiscal year Ended	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	Net OPEB Obligation
12/31/2010	\$ 1,366,185	105.61%	\$ (357,107)
12/31/2011	\$ 1,366,185	104.22%	\$ (414,716)
12/31/2012	\$ 1,515,169	102.17%	\$ (382,547)
12/31/2013	\$ 1,515,169	122.40%	\$ (105,296)
12/31/2014	\$ 1,515,169	120.20%	\$ 149,310

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was \$17,942,584 and the actuarial value of the assets was \$0 resulting in a UAAL of \$17,942,584.

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 December 31, 2011, 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 six years was used along with a long term care inflation rate of 3.0%.

The UAAL is being amortized on an open amortization level dollar amount over 15 years. The remaining amortization period at December 31, 2014 was 12 years.

17. 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, 2014, for the combined utility operations are as follows:

Condensed Statement of Net Position

Assets

Current assets	\$ 16,046,198
Restricted assets	8,511,769
Capital assets	164,533,211
Other assets	368,028
Total assets	<u>189,459,206</u>

Liabilities

Current liabilities	4,756,964
Due to other funds	530,289
Payable from restricted assets	40,143
Long-term liabilities	<u>25,676,034</u>
Total liabilities	<u>31,003,430</u>

Net Position

Restricted for debt service	1,930,465
Restricted for capital replacement	5,552,523
Unrestricted	9,037,635
Net investment in capital assets	<u>141,935,153</u>
Total net position	<u><u>\$ 158,455,776</u></u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

Total operating revenues	\$ 27,169,551
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Operating Expenditures:

Operations & maintenance	15,444,698
Depreciation/amortization/depletion	<u>5,637,832</u>
Total operating expenses	<u>21,082,530</u>

Operating income(loss)	6,087,021
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Non-Operating Revenues/Expenses

Interest revenue/expense (net)	(382,292)
Other (net)	<u>443,296</u>
Total non-operating revenues/expenses	<u>61,004</u>

Capital contributions	1,386,750
Transfers	(6,548,927)

Change in net position	985,848
Beginning net position	156,817,566
Prior period adjustment	<u>652,362</u>
Ending net position	<u><u>\$ 158,455,776</u></u>

Condensed Statement of Cash Flows

Net cash provided By:

(a) Operating activities	\$ 12,365,838
(b) Noncapital financing activities	(5,528,801)
(c) Capital and related financing activities	(458,063)
(d) Investing activities	152,157
Beginning cash and equivalents balance	<u>4,864,529</u>
Ending cash and equivalents balance	<u><u>\$ 11,395,660</u></u>

18. Prior Period Adjustments

The Government wide and proprietary fund statements reflect prior period adjustments of (\$173,576) and \$613,678 respectively.

	<u>Reason for prior period adjustment</u>	<u>Fund Statements</u>	<u>Government Wide</u>
General Fund	Adjustment to 2013 payment in lieu of tax	23,863	
Other Governmental Funds			
Conference Center Expansion	Contribution to Conference Center upgrade project reported as an expense reimbursement in 2013	49,341	
Total Governmental Funds		73,204	73,204
Risk Management	Adjustment to 2013 workers compensation claims liability	(173,576)	
Total Internal Service Funds		\$ (173,576)	\$ (173,576)
Total Governmental Activities			(100,372)
Water	Adjustment to 2013 payment in lieu of tax	(23,863)	
Golf	Inventory and capital purchases reported as expenses in 2013	61,688	
Wastewater	Excise Tax refund resulting from contracted review	677,680	
Nonmajor Enterprise Funds			
Stormwater Fund	Additional excise tax due resulting from a review of 2013 activity	(1,455)	
Total Proprietary Funds		\$ 714,050	
Total Business-Type Activities			\$ 714,050
Government-wide adjustments			\$ 613,678

19. Significant Events

The City of Bremerton and the Port of Bremerton entered into an interlocal agreement on December 17, 2014 that reduced the Port's stormwater charges to 12.5% of the Cities approved stormwater rate and stated the amounts previously billed above the new rate would be forgiven. The amount outstanding in the Stormwater fund was \$788,710. The City wrote off the balance effective December 2014.

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

<u>Fiscal Year</u> <u>Ended</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability Unit</u> <u>Cost</u>	<u>Unfunded Actuarial</u> <u>Accrued Liabilities</u> <u>(UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u>
12/31/2012	\$ -	\$ 16,191,238	\$ 16,191,238	0.0%	\$ 461,567	3500.00%
12/31/2013	\$ -	\$ 21,632,822	\$ 21,632,822	0.0%	\$ 214,934	10100.00%
12/31/2014	\$ -	\$ 17,942,584	\$ 17,942,584	0.0%	\$ 179,183	10000.00%

City of Bremerton
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Expenditures						
Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total
CDBG - Entitlement Grants Cluster						
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-13-MC-53- 0011	-	419,631	419,631
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-53- 0011	-	38,489	38,489
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	Program Income	-	10,150	10,150
Total CDBG - Entitlement Grants Cluster:				-	468,270	468,270
Economic Development Cluster						
Economic Development Administration, Department Of Commerce	Investments for Public Works and Economic Development Facilities	11.300	07-01-06590	-	5,468	5,468
Total Economic Development Cluster:				-	5,468	5,468
Highway Planning and Construction Cluster						
Federal Highway Administration (fhwa), Department Of Transportation (via WA State DOT)	Highway Planning and Construction	20.205	STPUS-6585 (001)	602,031	-	602,031
						2

The accompanying notes are an integral part of this statement.

City of Bremerton
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State DOT)	Highway Planning and Construction	20.205	STPUS-9918 (013)	357,376	-	357,376	2
Total Highway Planning and Construction Cluster:				959,407	-	959,407	
Highway Safety Cluster							
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Traffic Safety Commission)	State and Community Highway Safety	20.600	N/A	2,042	-	2,042	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Traffic Safety Commission)	State and Community Highway Safety	20.600	N/A	2,670	-	2,670	
Total CFDA 20.600:				4,712	-	4,712	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via WA Traffic Safety Commission)	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	N/A	3,159	-	3,159	
Total Highway Safety Cluster:				7,871	-	7,871	
JAG Program Cluster							

The accompanying notes are an integral part of this statement.

City of Bremerton
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX- 0732	-	25,688	25,688	2
Total JAG Program Cluster:				-	25,688	25,688	
Other Programs							
Forest Service, Department Of Agriculture (via WA State DNR)	Cooperative Forestry Assistance	10.664	IAA-13- 252/K244-11- DG-015	10,000	-	10,000	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Shelter Plus Care	14.238	WAO100LOT0 11205- Tenant	-	18,324	18,324	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Shelter Plus Care	14.238	WAO100LOT0 11306- Tenant	-	10,625	10,625	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Shelter Plus Care	14.238	WAO098LOT0 11205- Project	-	15,196	15,196	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Shelter Plus Care	14.238	WAO098LOT0 11306- Project	-	14,821	14,821	

The accompanying notes are an integral part of this statement.

City of Bremerton
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Shelter Plus Care	14.238	WA0099LOT0 11205- Sponsor	-	41,324	41,324	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Shelter Plus Care	14.238	WA0099LOT0 11306- Sponsor	-	52,160	52,160	
Total CFDA 14.238:				-	152,450	152,450	3
Office Of Community Planning And Development, Department Of Housing And Urban Development (via Kitsap County)	Home Investment Partnerships Program	14.239	Program Income	460	-	460	
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	99002098	-	3,982	3,982	2
Total Federal Awards Expended:				977,738	655,858	1,633,596	

The accompanying notes are an integral part of this statement.

CITY OF BREMERTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014

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.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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