



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements and Federal Single Audit Report

City of Bremerton

Kitsap County

For the period January 1, 2013 through December 31, 2013

Published September 29, 2014

Report No. 1012708





Washington State Auditor Troy Kelley

September 29, 2014

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,

TROY KELLEY
STATE AUDITOR

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Federal Summary

City of Bremerton Kitsap County January 1, 2013 through December 31, 2013

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 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 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
66.120	Puget Sound Watershed Management Assistance

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

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

Schedule of Federal Audit Findings and Questioned Costs

**City of Bremerton
Kitsap County
January 1, 2013 through December 31, 2013**

1. The City does not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.

CFDA Number and Title:	66.120 Puget Sound Watershed Management Assistance
Federal Grantor Name:	U.S. Environmental Protection Agency
Federal Award/Contract Number:	PO-00J087-01
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

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.

Cause of Condition

The City Engineer was unaware that the suspension and debarment requirements applied to consulting contracts. The City did not have internal controls in place to ensure suspended or debarred vendors were not awarded contracts paid through federal funding. We consider this control deficiency a material weakness.

Effect of Condition and Questioned Costs

Without proper controls, the City cannot ensure federal funds are paid to vendors that are eligible to participate in federal programs if the vendor's status is not confirmed. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency. Although internal controls were not in place prior to awarding the contract, we determined the contractor was not suspended or debarred. Therefore, we are not questioning costs charged to the grant.

Recommendation

We recommend the City establish internal controls to verify suspension and debarment status of all vendors prior to entering into federally funded contracts.

City's Response

At the time the city contracted for engineering services we were unaware of the requirement to check whether the consultant was suspended or debarred. We became aware of this requirement in the fall of 2013, and to address this issue we accessed the System for Award Management website in September of 2013 to confirm there were no issues. Additionally, we instituted additional controls by including language in all consultant contracts requiring the consultant to certify that neither they, nor any sub-consultants "are presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this transaction by any Federal department or agency." Having implemented this change we believe we have sufficient controls in place to ensure compliance with this requirement.

Auditor's Remarks

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

Applicable Laws and Regulations

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

The auditee shall:

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

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

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

(a) Covered transactions under this part:

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

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

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

Title 2, Code of Federal Regulations, Section 180.200 - What is a covered transaction?

A covered transaction is a non-procurement or procurement transaction that is subject to the prohibitions of this part. It may be a transaction at -

- (a) The primary tier, between a Federal agency and a person (see appendix to this part); or
- (b) A lower tier, between a participant in a covered transaction and another person.

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

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

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person; or

(c) Adding a clause or condition to the covered transaction with that person.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

(a) The audit shall be conducted in accordance with GAGAS.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. 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.

Schedule of Federal Audit Findings and Questioned Costs

**City of Bremerton
Kitsap County
January 1, 2013 through December 31, 2013**

2. The City does not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.

CFDA Number and Title:	14.218 Community Development Block Grant
Federal Grantor Name:	U.S. Housing and Urban Development
Federal Award/Contract Number:	B-13-MC-53-0011
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

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.

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 subrecipient or vendor.

The City did not confirm suspension and debarment status of sub-recipients for non-procurement projects prior to awarding contracts.

Cause of Condition

The Community Grant Program Administrator was unaware that suspension and debarment requirements applied to all sub-recipient contracts receiving federal funding. The City did not have internal controls in place to ensure suspended or debarred

subrecipients were not awarded public service contracts paid through federal funding. We consider this control deficiency a material weakness.

Effect of Condition and Questioned Costs

Without proper controls, the City cannot ensure federal funds are paid to sub-recipients that are eligible to participate in federal programs if the party's status is not confirmed. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency. Although internal controls were not in place, we determined the sub-recipients were not suspended or debarred. Therefore, we are not questioning costs charged to the grant.

Recommendation

We recommend the City establish internal controls to verify suspension and debarment status of all sub-recipients prior to entering into federally funded contracts.

City's Response

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.

Auditor's Remarks

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

Applicable Laws and Regulations

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

The auditee shall:

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

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

(a) Covered transactions under this part:

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

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

Title 2, Code of Federal Regulations, Section 180.200 - What is a covered transaction?

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- (a) The primary tier, between a Federal agency and a person (see appendix to this part); or
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- (a) Checking the EPLS; or
- (b) Collecting a certification from that person; or
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Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

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Significant deficiency. 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.

Schedule of Prior Federal Audit Findings

City of Bremerton Kitsap County January 1, 2013 through December 31, 2013

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: 01/01/2012 – 12/31/2012	Report Ref. No: 1010490	Finding Ref. No: 1	CFDA Number(s): 11.300
Federal Program Name and Granting Agency: Investment in Public Works and Economic Development - U.S. Economic Development Administration, Department Of Commerce		Pass-Through Agency Name: NA	
Finding Caption: The City did not have sufficient internal controls to ensure compliance with federal Davis-Bacon Act (prevailing wage) requirements for its Investments for Public Works and Economic Development grant for a second year.			
Background: The City spent \$1,544,528 in federal grant money on the Park Avenue Plaza Phase II project in 2012. During our audit of fiscal year 2011, we found the City was not in compliance with Davis Bacon Act requirements and reported a finding. The City contracted with a management company to oversee the project through July 2012. The management company had not properly obtained and reviewed certified payroll reports, nor did the City have an internal control process to monitor the management company to ensure compliance. The City's contract ended with the management company in July 2012; however, the City did not have internal controls sufficient to ensure someone obtained or reviewed weekly certified payroll reports through at least December 2012.			
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>This project has been completed. The City worked with the Department of Labor and Industries regarding certified payrolls for the project. All corrections required have been fully addressed. The City has implemented oversight procedures to address future projects.</i>			

Audit Period: 1/1/2012 – 12/31/2012	Report Ref. No: 1010490	Finding Ref. No: 2	CFDA Number(s): 14.218
Federal Program Name and Granting Agency: Community Development block Grants/Entitlement Grants - U.S. Department of Housing and Urban Development		Pass-Through Agency Name: NA	
Finding Caption: The Community Development Block Grant Program Administrator did not adequately monitor or collect on deferred loans.			
Background: <p>The City held approximately \$574,030 in deferred loan receivables at December 31, 2012. Of this amount, approximately \$269,145 represents 16 loans that were originally funded with federal Community Development Block Grant (CDBG) funds. CDBG loans were given to local community members for down payment assistance or necessary repairs to their homes. The loans were to be repaid to the City at the maturity date (typically 15 to 20 years, with some loans having no maturity date) or immediately upon sale, transfer, change in use (i.e. owner began renting the home), or death of the borrower.</p> <p>The last complete review of the loans by the CDBG Program Administrator was in 2009, and resulted in several loans that required follow-up to verify eligibility for deferment or pursuit of collection by the City. It does not appear any follow-up review or action was completed. We reviewed 7 of the 16 CDBG loans totaling approximately \$90,380 and noted issues with four loans.</p> <p>Specifically, it appeared the Program Administrator should have collected approximately \$23,120 for the following three loans that no longer qualified to be deferred:</p> <ul style="list-style-type: none"> • Two outstanding loans to a borrower who passed away in 1997. • One loan involving a home that was sold in 2008. • The City was still reporting a CDBG loan for \$17,610 as outstanding at the end of 2012, even though it was paid in full in 2002. <p>In addition, similar issues were noted with other deferred loans that appeared to originate from non-federal funds. These issues were reported in a related letter to management referenced in our 2012 Accountability Audit Report.</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 implemented procedures to review and update the loan portfolio management procedures to ensure that each loan is reviewed once per year, at a minimum. Support staff has been assigned to carry out this work, with the guidance of the Block Grant Administrator.</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, 2013 through December 31, 2013**

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, 2013, 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 22, 2014. As discussed in Note 18 to the financial statements, during the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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.

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated September 22, 2014.

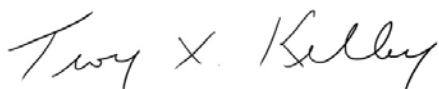
COMPLIANCE AND OTHER MATTERS

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*. However, we noted certain matters that we have reported to the management of the City in a separate letter dated September 22, 2014.

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.



TROY KELLEY
STATE AUDITOR

September 22, 2014

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, 2013 through December 31, 2013**

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, 2013. 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, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1 and 2. Our opinion on each major federal program is not modified with respect to these matters.

City's Response to Findings

The City's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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

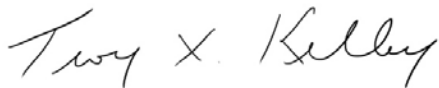
combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1 and 2 to be material weaknesses.

City's Response to Findings

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.



TROY KELLEY
STATE AUDITOR

September 22, 2014

Independent Auditor's Report on Financial Statements

City of Bremerton Kitsap County January 1, 2013 through December 31, 2013

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 24.

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Parking System funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 18 to the financial statements, in 2013, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 25 through 37 and information on postemployment benefits other than pensions on page 82 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.

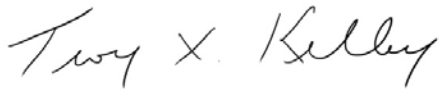
Supplementary and Other Information

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 22, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

September 22, 2014

Financial Section

**City of Bremerton
Kitsap County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Statement of Activities – 2013

Balance Sheet – Governmental Funds – 2013

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2013

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities – 2013

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
– General Fund– 2013

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
– Parking System Fund – 2013

Statement of Net Position – Proprietary Funds – 2013

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2013

Statement of Cash Flows – Proprietary Funds – 2013

Statement of Net Position – Fiduciary Funds – 2013

Notes to Financial Statements – 2013

REQUIRED SUPPLEMENTARY INFORMATION

LEOFF 1 Retiree Medical Benefits – Schedule of Funding Progress – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

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, 2013. 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 2013, the assets of the City exceeded its liabilities by \$262.4 million. The net investment in capital assets accounts for over 85.9 percent of this amount (\$225.4 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 2.2 percent of this amount (\$5.9 million). The remaining net assets of \$31.1 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net position increased by \$5.6 million (2.1%) during the fiscal year. The governmental net position increased by \$2.6 million (2.8%) from the amount reported in 2012. Business-type net position increased by \$3.0 million (1.7%). The Business-type increase included net income before contributions and transfers for the Water utility of \$1,295,459, Wastewater utility of \$3,381,128, other non-major proprietary funds of \$737,274 and Golf Course \$(156,724).
- As of December 31, 2013, the City's governmental funds reported a combined fund balance of \$10.3 million, an increase of 11.2% from the prior year end. The fund balance of the General Fund increased by \$266,618 while the remaining non-major governmental funds had a fund balance increase of \$771,520. The overall increase of \$1,038,138 is primarily attributable to a transfer of \$1.0 million to the governmental funds from the city's utilities for utility improvements being carried out in conjunction with a road improvement project. \$3.1 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 \$7.2 million of unrestricted fund balance \$2.4 million has been committed or assigned for specific purposes while \$4.8 million is unassigned and available to the City for future appropriation.
- At the end of 2013, the unassigned fund balance of the General Fund was \$4.8 million or approximately 15.3 percent of total General Fund expenditures of \$31.3 million. The General Fund's unassigned fund balance increased by \$775,786 from the prior year's amount of \$4.0 million, a 19.3 percent increase. This increase over 2012 is primarily due to a reduction in assigned fund balances from 2012. The 2012 assigned fund balance included \$545,168 of fund balance obligated by the passage of the 2013 budget. The Government Accounting Standards Board has subsequently clarified that this practice does not meet the criteria for assigned balances, therefore this practice has been discontinued.
- The City's total outstanding debt decreased by \$4.5 million (7.4%) during the current fiscal year to \$60.6 million. General obligation debt decreased by \$1.5 million and revenue debt decreased by \$3.0 million.
- The City's net investment in Capital Assets increased \$3.6 million (1.2%) in 2013. Total Capital assets from governmental activities increased \$.1 million or .7%. Total Capital assets from business type activities increased \$2.8 million or 1.6%. These increases are primarily due to Pacific Avenue road reconstruction project (\$2.3 million) and \$7.2 million in for the construction of water, wastewater and stormwater capital improvements identified within the City's 2013 capital improvement plan. In addition, roads, lighting and utility infrastructure in the Bayside development, valued at \$1.8 million, were conveyed to the City by the developers of the plat.

Overview of the Financial Statements

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

Government-wide Financial Statements

The government-wide financial statements are designed to give the reader a picture of the financial condition and activities of the City as a whole. This broad overview is similar to the financial reporting of private-sector businesses. The government-wide financial statements have separate columns for governmental activities and business-type activities. Governmental activities of the City include general government (finance, executive, human resources), community development, public safety (police and fire), utilities and environment, transportation, economic environment, and culture and recreation. The City's business-type activities are limited to the City's municipal golf course and water, wastewater and non-major 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 2013. The City's General fund and Parking System fund are 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, 2013 total \$262.4 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		
	2013	2012	Difference	2013	2012	Difference	2013	2012	Difference
Current Assets	\$ 16,061	\$ 17,450	\$ (1,389)	\$ 22,808	\$ 25,203	\$ (2,395)	\$ 38,869	\$ 42,653	\$ (3,784)
Restricted Assets	3,191	472	2,719	1,747	1,739	8	4,938	2,211	2,727
Capital Assets	111,045	110,243	802	174,478	171,700	2,778	285,523	281,943	3,580
Other Noncurrent Assets	1,014	1,590	(576)	691	1,021	(330)	1,705	2,611	(906)
Total assets	131,311	129,755	1,556	199,724	199,663	61	331,035	329,418	1,617
Deferred outflows of resources	1,120	-	1,120	179	-	179	1,299	-	1,299
Current Liabilities	2,749	13,508	(10,759)	1,566	1,462	104	4,315	14,970	(10,655)
Payable from Restricted Assets	-	-	-	81	-	81	81	0	81
Noncurrent Liabilities	35,764	24,955	10,809	29,772	32,670	(2,898)	65,536	57,625	7,911
Total liabilities	38,513	38,463	50	31,419	34,132	(2,713)	69,932	72,595	(2,663)
Deferred inflows of resources	15	-	15	-	-	-	15	-	15
Net position									
Net Investment in Capital Assets	80,093	78,295	1,798	145,318	139,494	5,824	225,411	217,789	7,622
Restricted	4,105	4,201	(96)	1,779	1,617	162	5,884	5,818	66
Unrestricted	9,705	8,796	909	21,387	24,420	(3,033)	31,092	33,216	(2,124)
Total Net Position	\$ 93,903	\$ 91,292	\$ 2,611	\$ 168,484	\$ 165,531	\$ 2,953	\$ 262,387	\$ 256,823	\$ 5,564

The largest component of the City's net position, \$225.4 million (or 85.9%), is its investment in capital assets less any related outstanding debt issued to acquire those assets. These capital assets, such as utility plant, streets, trails, parks, fire and police vehicles, are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

Restricted net position consist of amounts legally or otherwise externally restricted for debt service and other programs. Of the \$4.1 million of governmental restrictions, \$2.1 million or 50.1% is restricted for the construction of capital assets. \$2.0 million are special revenues restricted primarily for use in the Community Development Block Grant program (53.7%), for public safety services (33%), tourism promotion (8.4%) and workers compensation liability (4.9%). 0.6% (\$25,512) is restricted for debt service on outstanding debt. \$1.8 million of business-type restrictions are reserves required for debt service payments and asset replacement. A total of \$21.4 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 \$9.7 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 2013 with net position increasing approximately \$6.0 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 \$3.1 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

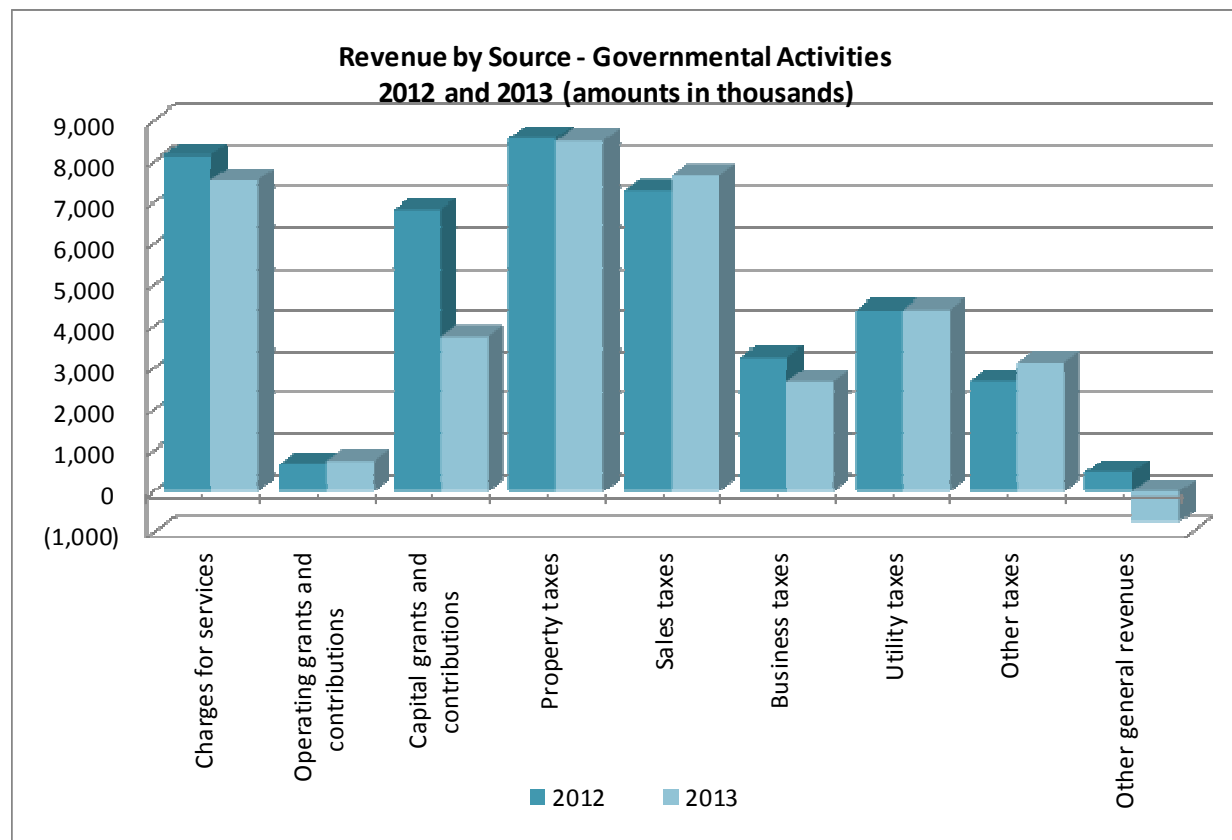
Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2013	2012	Difference	2013	2012	Difference	2013	2012	Difference
Revenues									
Program revenues									
Charges for services	\$ 7,554	\$ 8,148	\$ (594)	\$ 29,197	\$ 26,808	\$ 2,389	\$ 36,751	\$ 34,956	\$ 1,795
Operating grants and contributions	756	678	78	392	3	389	1,148	681	467
Capital grants and contributions	3,752	6,847	(3,095)	3,878	9,254	(5,376)	7,630	16,101	(8,471)
General revenues									
Property taxes	8,512	8,579	(67)	-	-	-	8,512	8,579	(67)
Sales taxes	7,679	7,296	383	30	16	14	7,709	7,312	397
Business taxes	2,665	3,257	(592)	4	1	3	2,669	3,258	(589)
Utility taxes	4,416	4,407	9	-	-	-	4,416	4,407	9
Other taxes	3,147	2,679	468	-	-	-	3,147	2,679	468
Other general revenues	(721)	488	(1,209)	475	683	(208)	(246)	1,171	(1,417)
Total revenues	\$ 37,760	\$ 42,379	\$ (4,619)	\$ 33,976	\$ 36,765	\$ (2,789)	\$ 71,736	\$ 79,144	\$ (7,408)
Expenses									
Governmental activities									
General government	3,353	2,336	1,017	-	-	-	3,353	2,336	1,017
Public safety	23,337	23,177	160	-	-	-	23,337	23,177	160
Utilities and environment	220	220	-	-	-	-	220	220	-
Transportation	4,459	4,207	252	-	-	-	4,459	4,207	252
Economic Environment	1,814	1,865	(51)	-	-	-	1,814	1,865	(51)
Culture and recreation	5,992	6,061	(69)	-	-	-	5,992	6,061	(69)
Interest on long-term debt	1,222	1,172	50	-	-	-	1,222	1,172	50
Business-type activities									
Water	-	-	-	9,277	8,923	354	9,277	8,923	354
Wastewater	-	-	-	9,946	9,944	2	9,946	9,944	2
Golf course	-	-	-	4,008	2,271	1,737	4,008	2,271	1,737
Other proprietary funds	-	-	-	2,152	2,282	(130)	2,152	2,282	(130)
Total expenses	\$ 40,397	\$ 39,038	\$ 1,359	\$ 25,383	\$ 23,420	\$ 1,963	\$ 65,780	\$ 62,458	\$ 3,322
Excess of revenues over expenses	(2,637)	3,341	(5,978)	8,593	13,345	(4,752)	5,956	16,686	(10,730)
Transfers	5,492	4,462	1,030	(5,492)	(4,462)	(1,030)	-	-	-
Change in net position	2,855	7,803	(4,948)	3,101	8,883	(5,782)	5,956	16,686	(10,730)
Net position - beginning	91,292	83,489	7,803	165,531	156,857	8,674	256,823	240,346	16,477
Prior period adjustment	(244)	-	(244)	(148)	(209)	61	(392)	(209)	(183)
Net position - ending	\$ 93,903	\$ 91,292	\$ 2,611	\$ 168,484	\$ 165,531	\$ 2,953	\$ 262,387	\$ 256,823	\$ 5,564

Governmental activities accounted for an increase of \$2.6 million of the total change in net position of \$5.6 million. Significant elements of the increase are as follows:

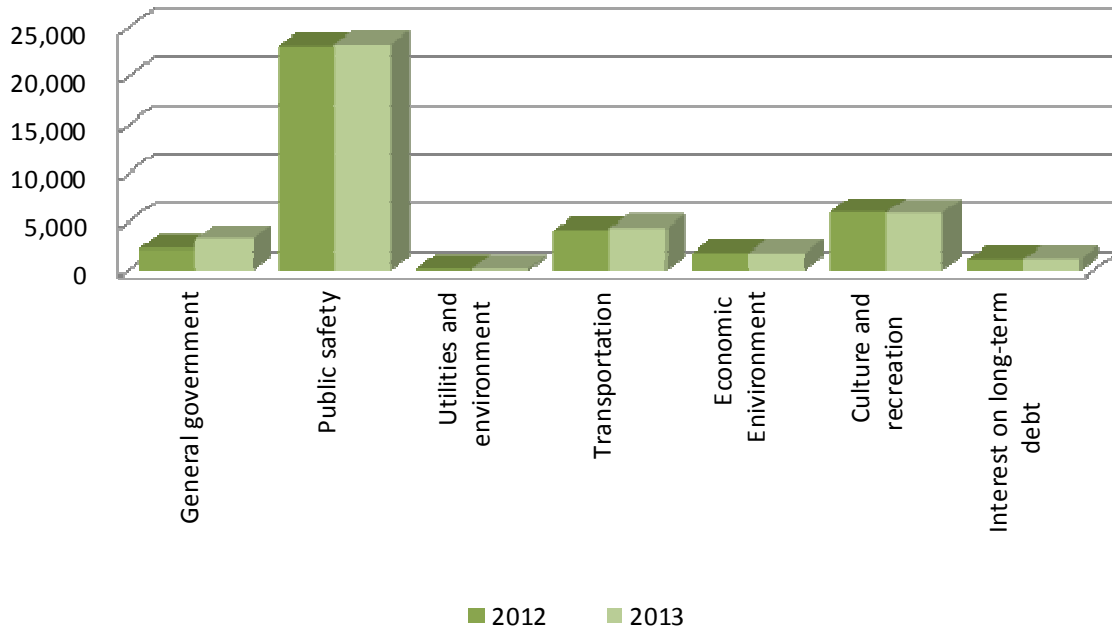
- Transfers continued to play a significant role in the increase to net position in 2013. Transfers from Business-type activities increased \$1,030,000 in 2013. A transfer of \$1,050,000 from the Water and Wastewater funds to the Pacific Avenue Construction fund in support of utility work performed during the road reconstruction project was the major item contributing to the increase.
- Expenditures increased by 3.5% in 2013 compared to 2012. Small changes occurred in many functional areas, as a significant effort was made to match available resources. The most notable exception was an increase of \$1.0M in expenditures for General Government activities. This is directly related to a decrease in net income from operations of the Risk Management internal service fund as compared to 2012. The net income from 2013 activities was \$667,235 or 64.6% less than the net income from 2012 due to decreased charges to participating funds in 2013 as a result of higher than required reserves at the end of 2012. Expenditure increases in Public Safety, Transportation and interest expense activities (\$462,000) were offset by small decreases in Economic Environment and Culture and Recreation activities (\$120,000).
- Total revenue from governmental activities in 2013 decreased by \$4.6 million from 2012. Program revenues accounted for the largest portion of this decrease, \$4.3 million or 83%. Within program revenue, Capital Grants and Contributions decreased \$3.1 million or 45%. Charges for Services also decreased 7.2% from 2012 levels. A major component of the decrease of \$594,000 was a 29.7% (\$257,317) decrease in photo enforcement penalties. The remaining decrease in revenue for governmental activities is attributable to general revenues. Tax revenues that support ongoing operations increased by \$.2 million in 2013 from the 2012 level. Sales taxes

increased \$0.4 million or 5.2%. Business taxes decreased by \$0.6 million or 0.18%. Property, utility, and other taxes increased \$0.4 million or 2.6% with the largest increase being other general taxes (\$.5 million). Other general revenues which include interest earnings, gains and losses on disposal of assets, and miscellaneous income, decreased by \$14.2 million in 2013 from the 2012 level, or 247%. The largest component of this decrease (\$.9 million) was related to a loss on the sale of property previously acquired as part of a the SR303 road construction project.

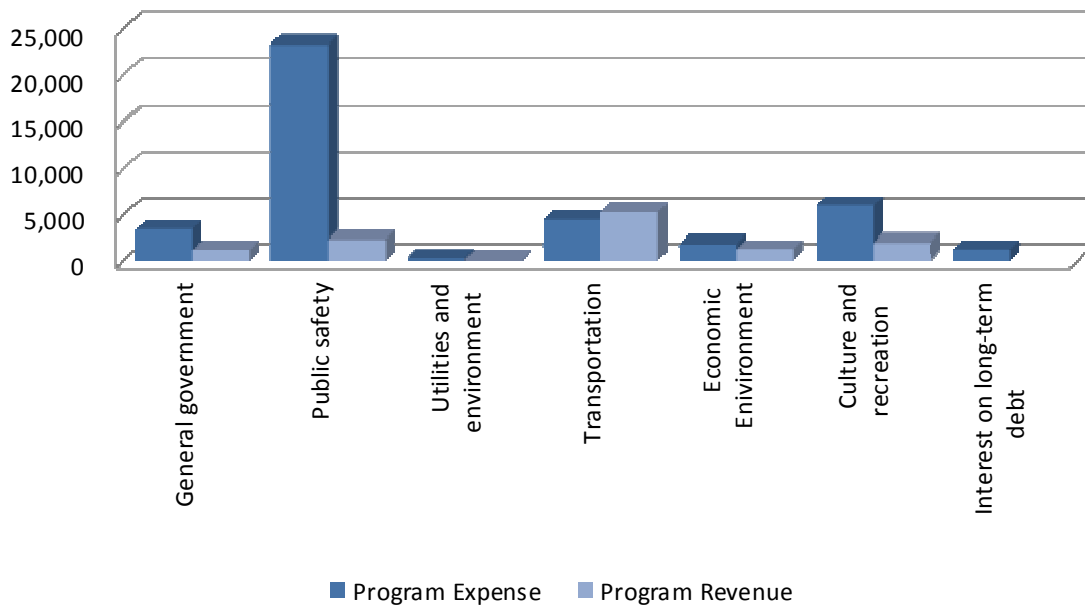
- Governmental activities were reduced by \$244,420 in 2013 by a prior period adjustment, a result of the implementation of GASB Statement No. 65. Implemented in 2013, the statement changed the recognition of debt issuance costs as an expense of the period in which the costs are incurred. Implementation guidance requires that the cumulative effect of applying this Statement should be reported as a restatement of beginning net position or fund balance for the earliest period reported.



Expenditures by Type - Governmental Activities
2012 and 2013
 (amounts in thousands)



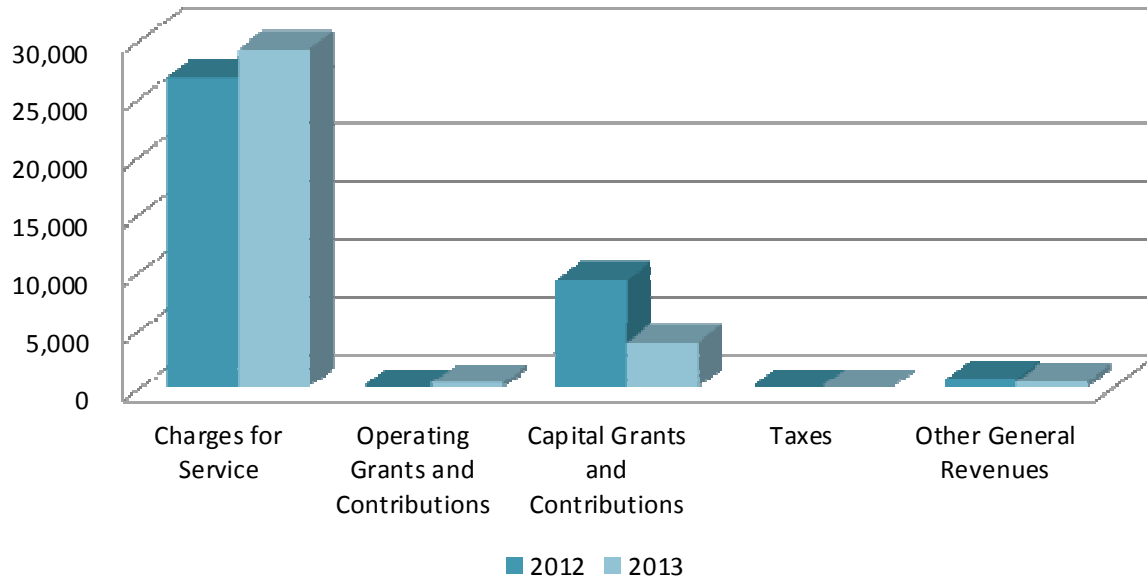
Program Expenses and Revenues - Governmental Activities
Year Ended 2013
 (amounts in thousands)



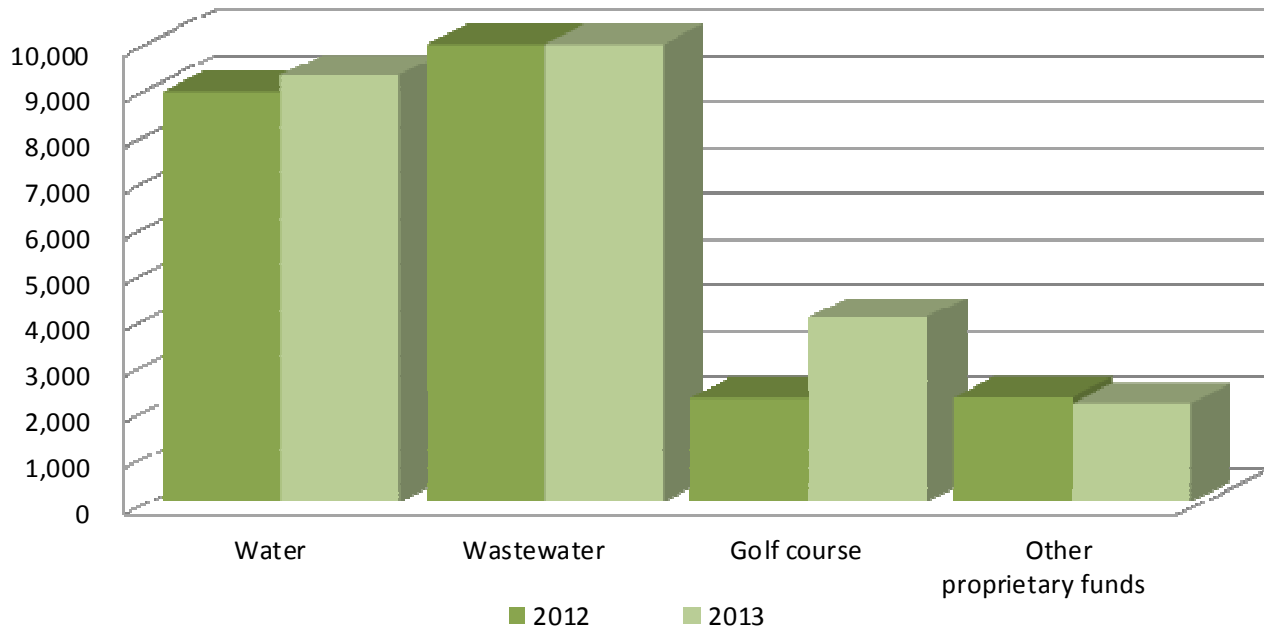
Business-type activities increased City's net position by \$3.1 million, before prior period adjustments, accounting for approximately fifty three percent of the total growth in the government's net position.

- A key element of this increase is in capital grants and contributions which continued to be a significant revenue source in 2013. Revenue of \$3.9 million from this source decreased \$5.4 million or 58% in 2013 from 2012 but was still a significant component of the increase. Of the \$3.9 million received from this contribution in 2013, 40% was from developer contributions. The largest contribution, \$1,181,378, was from the Freestone Corporation for utility and street infrastructure at the Bayside development. 34% or \$1.3 million were capital grants including the upgrade of equipment at the wastewater treatment plant, which resulted in substantial energy savings as well as a project to retrofit existing streets with "green" concepts to mitigate and treat stormwater using low impact development techniques. The remaining 26% were general facilities fees collected for new development within the utility service area. This was a 15% increase over fees collected in 2012.
- Charges for services increased \$2.39 million in 2013. This increase was largely a result of the City entering into a contract with Columbia Hospitality for management of the City's Gold Mountain Golf Course. The contract includes the provision of food services at the golf course that were formerly not part of the city's management contract. Increased revenues at the golf course were \$1.9 million or 97% higher than 2012.
- Expenditures for Business Type activities increased \$2.0 million in 2013 over 2012. \$1.7 million of this increase was attributable to additional costs associated with the provision of food services in the management contract for the golf course. The remainder was mainly general cost increases for fuel, utilities and supplies.
- Transfers to Governmental Activities increased by \$1,030,000 in 2013. This increase was attributable to transfers of \$1,050,000 from the Water and Wastewater utilities to the Pacific Avenue Construction to fund utility improvements associated with the street restoration project.
- Business-Type activities were reduced by \$148,347 in 2013 by a prior period adjustment, a result of the implementation of GASB Statement No. 65. Implemented in 2013, the statement changed the recognition of debt issuance costs as an expense of the period in which the costs are incurred. Implementation guidance requires that the cumulative effect of applying this Statement should be reported as a restatement of beginning net position or fund balance for the earliest period reported.

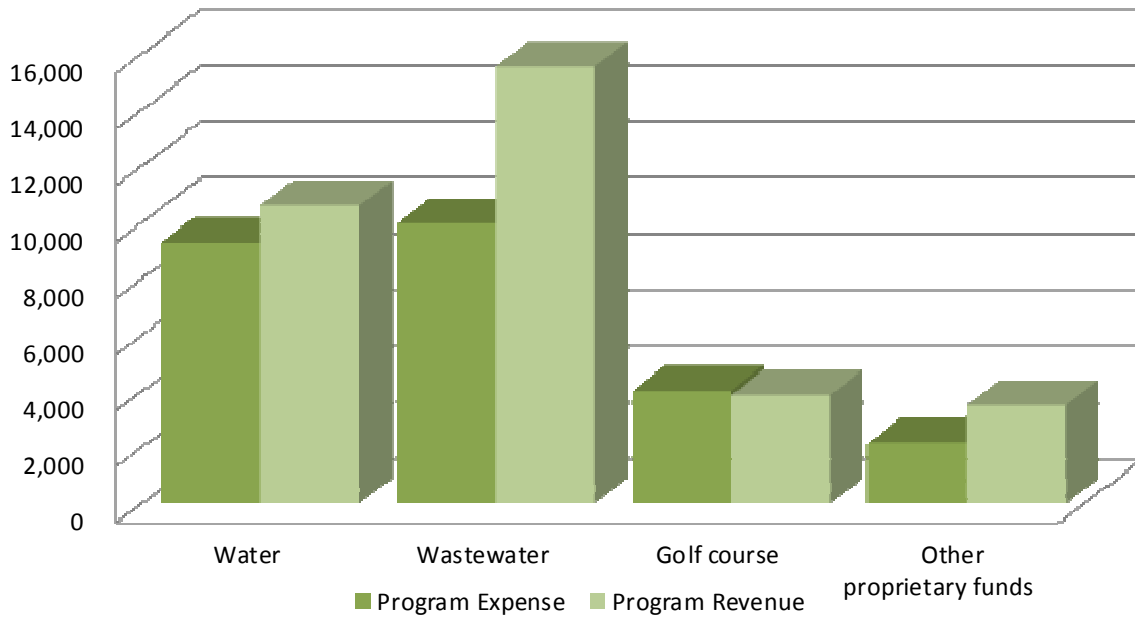
Revenue by Source - Business-type Activities
2012 and 2013
(amount in thousands)



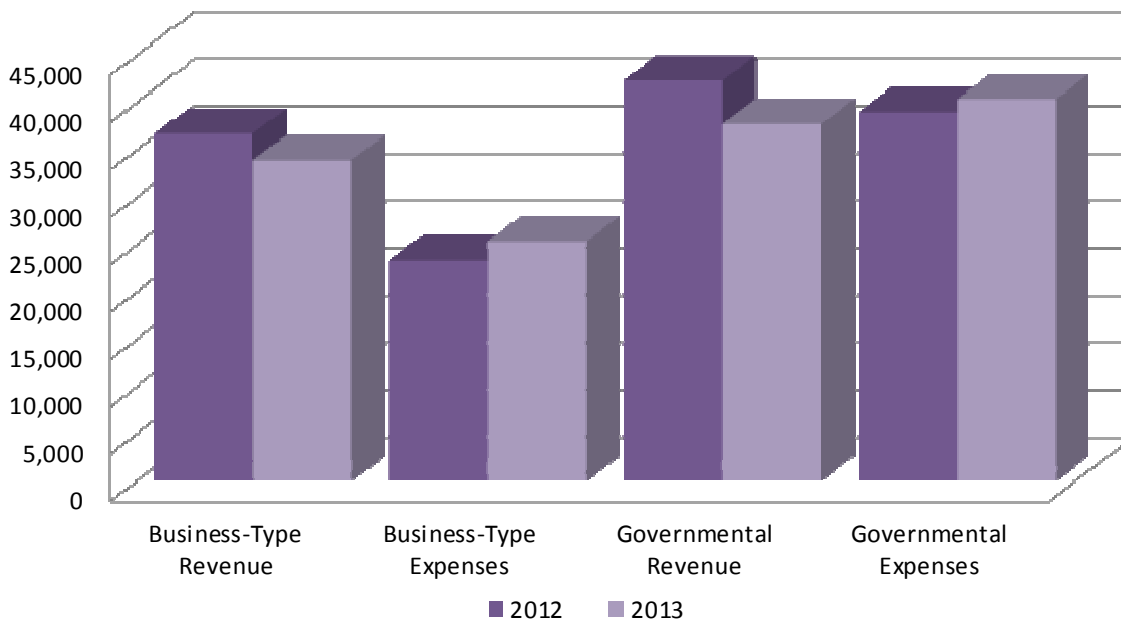
Expenses by Fund - Business-type
2013 and 2012
(amounts in thousands)



**Expenses and Program Revenues - Business-type Activities
for Year Ended December 31, 2013
(amounts in thousands)**



**Comparison of Total Revenues and Total Expenses
2012 and 2013
(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 2013, the fund balance of the General Fund was \$4.9 million. As a measure of the fund's liquidity, the 2013 ending fund balance is 15.6% of the fund's 2013 expenditures, an increase of 2.3% over 2012's 13.3%.

The General Fund balance increased in 2013 by \$.27 million. Revenues decreased from \$32 million in 2012 to \$27.9 million in 2013. Expenditures decreased from \$34.5 million to \$31.3 million during the same period. The decrease in both revenues and expenditures is largely attributable to the issuance of \$5.2 million in debt in 2012. Expenditures exceeded revenues in the General Fund by \$3.3 million in 2013 but were offset by net transfers and other financing sources of \$3.6 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 2013 capital improvement program there were no significant transactions pertaining to the proprietary funds.

General Fund Budget Variations

The General Fund collected revenues at 99.4% of the amended amount budgeted or \$.19 million less than budgeted. Expenditures for 2013 were 94% of the amended budget resulting in actual expenditures being \$2 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 from attrition and lower pension expenditures than anticipated in the Police, Engineering and Police & Fire Pension departments.

The General Fund budget was balanced in 2013. The original budget provided for a decrease to the fund balance of \$531,589. The budget was amended two times during 2013. The final amended budget provided for a decrease to fund balance of \$1,386,646. At the conclusion of 2013, the General Fund increased fund balance by \$1.8 million.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2013, amounts to \$285.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, construction in progress, utility transmission/distribution systems, and roads.

The major capital asset additions for governmental activities during 2013 was the reconstruction of Pacific Avenue and the addition of roads, sidewalks and lighting in the Bayside development, conveyed to the City by the developers of the plat.

The major capital assets changes for business-type activities included the construction of wastewater and water capital improvement projects identified within the City's 2013 capital improvement plan.

Capital Assets (net of depreciation)

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2013	2012	Difference	2013	2012	Difference	2013	2012	Difference
Land	\$ 20,402	\$ 17,434	\$ 2,968	\$ 9,117	\$ 9,107	\$ 10	\$ 29,519	\$ 26,541	\$ 2,978
Buildings	51,728	46,036	5,692	34,015	34,557	(542)	85,743	80,593	5,150
Improvements/Infrastructure	31,555	26,619	4,936	95,798	92,794	3,004	127,353	119,413	7,940
Machinery and Equipment	3,062	2,987	75	32,535	30,948	1,587	35,597	33,935	1,662
Construction in Progress	4,298	17,167	(12,869)	3,013	4,294	(1,281)	7,311	21,461	(14,150)
TOTAL	\$ 111,045	\$ 110,243	\$ 802	\$ 174,478	\$ 171,700	\$ 2,778	\$ 285,523	\$ 281,943	\$ 3,580

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

Long-term debt

For governmental activities in 2013, the City replaced the outstanding limited tax general obligation note, 2011 associated with the City's parking system, in the amount of \$8,910,000 which matured on July 29, 2013 with \$8,590,000 in limited tax general obligation bonds (non-taxable). New debt for business-type activities in 2013 consisted of \$5,200,000 in limited tax general obligation bonds (taxable) to refund the City's outstanding limited tax general obligation bonds, 2009, in the amount of \$5,058,000. These bonds are associated with the City's Gold Mountain Golf Complex. The refunding resulted in an economic gain of \$420,473. In addition, \$53,883 of intergovernmental loans to fund Water/Wastewater capital improvement projects identified within the utilities' capital improvement plan. The long-term debt principal paid off in 2013 totaled \$18,325,077.

Outstanding Debt - General Obligation and Revenue Bonds

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2013	2012	Difference	2013	2012	Difference	2013	2012	Difference
General Obligation Bonds	\$ 31,240	\$ 32,675	\$ (1,435)	\$ 4,985	\$ 5,058	\$ (73)	\$ 36,225	\$ 37,733	\$ (1,508)
General Obligation Notes	35	35	-	-	-	-	35	35	-
Revenue Bonds	-	-	-	3,210	3,575	(365)	3,210	3,575	(365)
Revenue Loans	-	-	-	21,143	23,777	(2,634)	21,143	23,777	(2,634)
TOTAL	\$ 31,275	\$ 32,710	\$ (1,435)	\$ 29,338	\$ 32,410	\$ (3,072)	\$ 60,613	\$ 65,120	\$ (4,507)

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 2014 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 2013.

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

compete very well for certain projects. Mid- to long-term, Bremerton must increase its local revenue to address transportation needs. In an effort to do so, the Bremerton City Council, acting as the Bremerton Transportation Benefit District Board, enacted a \$20 per vehicle car tab fee to be used solely for transportation projects. This fee was adopted in December 2011. At 12/31/13 \$651,034 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 project in the Manette neighborhood.

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

Of the multi-year plans to revitalize Bremerton, the following are completed as of December 2013; the Harborside Conference Center, Hotel and Plaza, Bremerton Ice Arena, Kitsap Credit Union Headquarters/Office building, downtown Naval Parking Garage, waterfront condominiums, Harborside Fountain Park and Naval Museum, downtown police station, Norm Dicks Government Center building, downtown fire station, downtown marina facility, the Downtown Pedestrian Bremerton Transit Center Access, PSNS Memorial Plaza, Fairfield Inn & Suites, downtown Municipal Courthouse, First Street Plaza, the revitalization of Lions Park, construction of a parking garage and retail commercial pads at Burwell and Park Ave, a new multi-screen movie theater in association with the newly developed retail commercial pads and the renovation of Kiwanis Park. Highmark Homes LLC of Tukwila has purchased East Park, a 50-acre hillside site in East Bremerton for development of as many as 437 housing units. If built in its entirety, the new East Park will be among the largest neighborhoods constructed in Bremerton. The entire project would be constructed in six phases, to be built out over several years. The first phase of this project is underway.

Projects that are in the various stages of completion include; Bay Vista mixed use redevelopment project, a multi-unit apartment complex to be placed on top of the Park Plaza parking facility in the Harborside district, the redevelopment of Evergreen Rotary Park to add an inclusive playground that will provide recreational opportunities for all children regardless of ability and the reconstruction of a portion of Lower Wheaton Way that will provide a vital link to the vision of a bridge to bridge urban trail. In addition there has been an increase in activity related to residential development and several projects are in various stages of the financing and permitting process.

These projects occurring throughout Bremerton are a product of both public and private investment. 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. On April 3, 2013, the City completed and adopted this analysis on its three utilities, raising rates to adequately fund the operations and maintenance, capital, and the anticipated debt service needs for the three utilities over the next six years. This adopted analysis anticipates the issuance of up to a maximum of \$35 million in revenue bonds. The rate increases recommended in the analysis included the related debt service on these bonds.

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, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash & Cash Equivalents	\$ 4,854,333	\$ 7,242,482	\$ 12,096,815
Investments	5,393,139	8,510,254	13,903,393
Receivables	4,644,971	5,244,309	9,889,280
Internal balances	(239,586)	239,586	-
Due from other governments	915,388	361,029	1,276,417
Inventories	114,729	1,182,284	1,297,013
Prepayments	378,276	27,938	406,214
Restricted assets:			
Cash & Cash Equivalents	1,125,819	-	1,125,819
Investments	1,834,352	1,428,425	3,262,777
Receivables	74,362	318,231	392,593
Due from other governments	156,189	-	156,189
Notes and contracts receivable:			
Due within one year	46,000	51,707	97,707
Due in more than one year	862,919	416,284	1,279,203
Capital assets net of depreciation	111,045,108	174,478,105	285,523,213
Other assets	105,296	223,052	328,348
Total assets	\$ 131,311,295	\$ 199,723,686	\$ 331,034,981
Deferred outflows of resources	\$ 1,119,825	\$ 179,187	\$ 1,299,012
Liabilities			
Accounts payable and other current liabilities	\$ 2,095,443	\$ 980,726	\$ 3,076,169
Employee wages payable	1,032,667	359,229	1,391,896
Other accrued liabilities	47,038	120,367	167,405
Custodial accounts	-	105,984	105,984
Noncurrent liabilities			
Payable from restricted assets	-	81,289	81,289
Due within one year	3,567,739	3,693,438	7,261,177
Due in more than one year	31,770,071	26,077,545	57,847,616
Total liabilities	\$ 38,512,958	\$ 31,418,578	\$ 69,931,536
Deferred inflows of resources	\$ 15,000	\$ -	\$ 15,000
Net Position			
Net investment in capital assets	\$ 80,093,194	\$ 145,318,353	\$ 225,411,547
Restricted for:			
Tourism promotion & facilities	169,526	-	169,526
Community development block grant	1,085,861	-	1,085,861
Public safety	666,272	-	666,272
Debt service	25,512	1,541,910	1,567,422
Workers compensation	100,000	-	100,000
Capital projects	2,057,809	237,044	2,294,853
Unrestricted	9,704,988	21,386,988	31,091,976
Total Net Position	\$ 93,903,162	\$ 168,484,295	\$ 262,387,457

See accompanying notes to the financial statements.

Statement of Activities
For the Year Ended December 31, 2013

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	\$ 3,353,284	\$ 1,157,719	\$ -	\$ -	\$ (2,195,565)	\$ -	\$ (2,195,565)
Public safety	23,337,415	2,221,956	87,045	-	(21,028,414)	-	(21,028,414)
Utilities and environment	220,176	46,421	45,260	-	(128,495)	-	(128,495)
Transportation	4,459,164	1,574,590	32,201	3,659,009	806,636	-	806,636
Economic environment	1,813,732	693,783	591,972	-	(527,977)	-	(527,977)
Culture and recreation	5,991,865	1,859,950	-	93,049	(4,038,866)	-	(4,038,866)
Interest on long-term debt	1,221,700	-	-	-	(1,221,700)	-	(1,221,700)
Total governmental activities	40,397,336	7,554,419	756,478	3,752,058	(28,334,381)	-	(28,334,381)
Business-type activities							
Water	9,276,527	9,830,918	-	764,585	-	1,318,976	1,318,976
Wastewater	9,945,606	13,105,172	-	2,427,968	-	5,587,534	5,587,534
Golf course	4,008,939	3,846,550	-	-	-	(162,389)	(162,389)
Other proprietary funds	2,151,899	2,414,686	392,179	684,993	-	1,339,959	1,339,959
Total business-type activities	25,382,971	29,197,326	392,179	3,877,546	-	8,084,080	8,084,080
Total government	\$ 65,780,307	\$ 36,751,745	\$ 1,148,657	\$ 7,629,604	\$ (28,334,381)	\$ 8,084,080	\$ (20,250,301)
General Revenues							
Taxes:							
Property					8,511,679	-	8,511,679
Sales					7,678,855	30,041	7,708,896
Business					2,665,107	4,598	2,669,705
Utility					4,415,712	-	4,415,712
Other					3,147,164	-	3,147,164
Unrestricted investment interest					120,563	133,271	253,834
Miscellaneous					54,312	351,539	405,851
Gain/(Loss) on disposal of capital assets					(895,538)	(10,148)	(905,686)
Transfers, internal activities					5,492,002	(5,492,002)	-
Total general revenues and transfers					31,189,856	(4,982,701)	26,207,155
Change in net position					2,855,475	3,101,379	5,956,854
Net position-beginning					91,292,107	165,531,263	256,823,370
Prior period adjustment					(244,420)	(148,347)	(392,767)
Net position-ending					\$ 93,903,162	\$ 168,484,295	\$ 262,387,457

See accompanying notes to the financial statements.

**Balance Sheet
Governmental Funds
December 31, 2013**

	General	Parking System	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and equivalents	\$ 2,011,158	\$ 113,144	\$ 2,433,037	\$ 4,557,339
Investments	2,734,918	155,265	2,384,817	5,275,000
Receivables, net	3,809,218	375,433	517,334	4,701,985
Due from other funds	479,858	-	76,711	556,569
Due from other governments	4,854	-	1,021,826	1,026,680
Inventories	24,801	-	-	24,801
Other assets	-	-	908,919	908,919
Total assets	<u>9,064,807</u>	<u>643,842</u>	<u>7,342,644</u>	<u>17,051,293</u>
Deferred outflows of resources	-	-	-	-
Total assets and deferred outflows of resources	<u>\$ 9,064,807</u>	<u>\$ 643,842</u>	<u>\$ 7,342,644</u>	<u>\$ 17,051,293</u>
LIABILITIES, DEFERRED INFLOW of RESOURCES and FUND BALANCES				
Liabilities:				
Accounts/contracts payable	\$ 582,303	\$ 40,687	\$ 1,098,282	\$ 1,721,272
Due to other funds	744,012	35,707	62,040	841,759
Employee wages payable	905,727	-	54,757	960,484
Other current liabilities	24,765	20	22,229	47,014
Unearned revenue	1,923,712	284,369	938,579	3,146,660
Total liabilities	<u>4,180,519</u>	<u>360,783</u>	<u>2,175,887</u>	<u>6,717,189</u>
Deferred inflows of resources	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>15,000</u>
Fund balances:				
Nonspendable	\$ 24,801	\$ -	\$ -	\$ 24,801
Restricted	50,179	-	3,040,543	\$ 3,090,722
Committed	-	-	357,663	\$ 357,663
Assigned	-	283,059	1,768,551	\$ 2,051,610
Unassigned	4,794,308	-	-	\$ 4,794,308
Total fund balances	<u>4,869,288</u>	<u>283,059</u>	<u>5,166,757</u>	<u>10,319,104</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 9,064,807</u>	<u>\$ 643,842</u>	<u>\$ 7,342,644</u>	<u>\$ 17,051,293</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.	111,045,108
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	3,304,108
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.	2,710,713
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(33,475,871)
Net position of governmental activities	<u>\$ 93,903,162</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, 2013

	General Fund	Parking Systems	Other Governmental Funds	Governmental Funds Total
REVENUES				
Taxes				
Property	\$ 7,778,225	\$ -	\$ 833,018	\$ 8,611,243
Sales	6,952,785	-	726,070	7,678,855
Business	7,080,819	-	-	7,080,819
Other	111,758	-	1,410,852	1,522,610
Licenses and permits	992,460	-	271,863	1,264,323
Intergovernmental	897,937	-	4,699,524	5,597,461
Charges for services	2,819,369	-	525,692	3,345,061
Fines and forfeitures	1,041,637	178,340	32,183	1,252,160
Miscellaneous	270,062	1,101,787	366,008	1,737,857
Total revenues	<u>27,945,052</u>	<u>1,280,127</u>	<u>8,865,210</u>	<u>38,090,389</u>
EXPENDITURES				
Current:				
General government	4,531,162	-	302,500	4,833,662
Public safety	21,105,050	-	368,499	21,473,549
Utilities and environment	28,166	-	-	28,166
Transportation	496,195	784,176	1,962,321	3,242,692
Economic environment	1,214,182	-	402,351	1,616,533
Mental/physical health	73,543	-	197,495	271,038
Culture and recreation	3,670,021	-	556,751	4,226,772
Debt service:		-		-
Principal	-	9,065,000	960,000	10,025,000
Interest and other debt issue costs	688	277,799	896,075	1,174,562
Capital outlay	156,257	-	4,624,878	4,781,135
Total expenditures	<u>31,275,264</u>	<u>10,126,975</u>	<u>10,270,870</u>	<u>51,673,109</u>
Excess (deficiency) of revenues over expenditures	<u>(3,330,212)</u>	<u>(8,846,848)</u>	<u>(1,405,660)</u>	<u>(13,582,720)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds of long-term debt	-	8,590,000	-	8,590,000
Premiums on bonds sold	-	401,073	-	401,073
Capital asset donations & disposal	1,250	-	136,248	137,498
Insurance recoveries	-	-	285	285
Transfers in	4,354,335	-	2,578,409	6,932,744
Transfers out	(758,755)	(80,000)	(601,987)	(1,440,742)
Total other financing sources and uses	<u>3,596,830</u>	<u>8,911,073</u>	<u>2,112,955</u>	<u>14,620,858</u>
Net change in fund balances	266,618	64,225	707,295	1,038,138
Fund balances-beginning	<u>4,602,670</u>	<u>218,834</u>	<u>4,459,462</u>	<u>9,280,966</u>
Fund balances-ending	<u>\$ 4,869,288</u>	<u>\$ 283,059</u>	<u>\$ 5,166,757</u>	<u>\$ 10,319,104</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, 2013

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

Net change in fund balances – total government funds	\$ 1,038,138
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.	806,688
Revenues and expenses in the statement of activities that do not provide current financial resources are not reported in the funds.	(431,889)
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.	751,108
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.	447,010
Change in net position of governmental activities	<u>\$ 2,611,055</u>

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, 2013

	Original Budget 2013	Final Budget 2013	Actual 2013	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 21,896,978	\$ 21,896,978	\$ 21,923,588	\$ 26,610
Licenses and permits	780,825	780,825	992,460	211,635
Intergovernmental	644,702	644,702	897,937	253,235
Charges for services	5,221,902	5,221,902	4,673,758	(548,144)
Fines and forfeitures	1,124,800	1,124,800	1,041,637	(83,163)
Other revenues	4,390,300	4,512,191	4,461,645	(50,546)
Total revenues	34,059,507	34,181,398	33,991,025	(190,373)
EXPENDITURES				
City Council	340,929	346,929	337,774	9,155
Executive	364,662	369,662	350,449	19,213
Finance	1,147,119	1,162,419	1,132,147	30,272
Legal	979,431	979,431	924,609	54,822
Human Resources	383,512	383,512	341,176	42,336
Community development	1,438,922	1,438,922	1,129,179	309,743
Municipal Court	1,427,534	1,427,534	1,350,004	77,530
City Auditor	173,168	173,168	170,349	2,819
Law enforcement	9,713,071	9,713,071	9,304,144	408,927
Fire/Emergency medical services	8,363,145	8,386,145	8,396,093	(9,948)
Police & fire pension	2,493,000	2,493,000	1,966,524	526,476
Facilities	743,223	861,000	806,162	54,838
Parks and recreation	2,560,935	2,642,806	2,557,845	84,961
Engineering	2,089,047	2,089,047	1,862,976	226,071
Non-departmental	2,373,398	3,101,398	2,915,585	185,813
Total expenditures	34,591,096	35,568,044	33,545,016	2,023,028
Excess (deficiency) of revenues over expenditures	(531,589)	(1,386,646)	446,009	1,832,655
Fund balances-beginning	2,240,856	2,524,467	4,126,602	1,602,135
Fund balances-ending	\$ 1,709,267	\$ 1,137,821	\$ 4,572,611	\$ 3,434,790

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.

\$ 296,677

Fund Balances Ending

\$ 4,869,288

EXPENDITURES

Personnel	26,539,714	26,649,931	25,428,044	1,221,887
Supplies, services & taxes	7,894,034	7,977,765	7,356,272	621,493
Capital expenditure	65,000	131,000	156,257	(25,257)
Debt Service	700	700	688	12
Transfers	91,648	808,648	603,755	204,893
Total expenditures	34,591,096	35,568,044	33,545,016	2,023,028

See accompanying notes to the financial statements.

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual Parking System
for the Year Ended December 31, 2013**

	Original Budget 2013	Final Budget 2013	Actual 2013	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	250,000	250,000	178,340	(71,660)
Other revenue	888,350	9,912,960	10,092,860	179,900
Total revenues	1,138,350	10,162,960	10,271,200	108,240
EXPENDITURES				
Personnel	-	-	-	-
Supplies, services & taxes	655,491	733,265	784,176	(50,911)
Capital expenditure	-	-	-	-
Debt service	510,304	9,342,900	9,342,799	101
Transfers	80,000	80,000	80,000	-
Total expenditures	1,245,795	10,156,165	10,206,975	(50,810)
Excess (deficiency) of revenues over expenditures	(107,445)	6,795	64,225	57,430
Fund balances-beginning	213,645	218,834	218,834	-
Fund balances-ending	\$ 106,200	\$ 225,629	\$ 283,059	\$ 57,430

See accompanying notes to the financial statements.

**Statement of Net Position
Proprietary Funds
December 31, 2013**

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Nonmajor Enterprise Funds	Total	Internal Service Funds
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 2,147,850	\$ 163,274	\$ 1,852,448	\$ 864,231	\$ 5,027,803	\$ 3,637,492
Restricted investments	46,222	-	1,382,203	-	1,428,425	100,000
Investments	2,901,220	224,057	1,159,865	1,185,963	5,471,105	4,891,640
External receivables	1,736,817	-	2,499,370	1,035,972	5,272,159	-
Restricted special assessments receivables	284,578	-	-	-	284,578	-
Interest receivables	7,075	538	6,102	2,847	16,562	11,981
Due from other funds	240,658	-	161,012	30,307	431,977	695,358
Due from other governments	-	-	-	361,029	361,029	5,407
Inventories	660,680	73,783	447,821	-	1,182,284	89,928
Prepayments	-	27,938	-	-	27,938	378,276
Total current assets	8,025,100	489,590	7,508,821	3,480,349	19,503,860	9,810,082
Noncurrent assets:						
Restricted special assessments	33,653	-	-	-	33,653	-
Notes and contracts receivable	416,284	-	-	-	416,284	-
Capital assets net of depreciation	59,905,852	7,305,433	97,854,908	6,118,371	171,184,564	3,295,193
Other noncurrent assets	103,612	-	119,440	-	223,052	-
Total noncurrent assets	60,459,401	7,305,433	97,974,348	6,118,371	171,857,553	3,295,193
Total assets	68,484,501	7,795,023	105,483,169	9,598,720	191,361,413	13,105,275
Deferred outflows of resources	-	179,187	-	-	179,187	-
Total assets and deferred outflows	\$ 68,484,501	\$ 7,974,210	\$ 105,483,169	\$ 9,598,720	\$ 191,540,600	\$ 13,105,275
LIABILITIES						
Current liabilities:						
Accounts/contract payable	287,110	139,724	468,145	84,771	979,750	437,340
Due to other funds	220,147	262,943	299,777	57,367	840,234	1,911
Employee wages payable	359,961	98,708	236,563	87,410	782,642	130,859
Other accrued liabilities	23,861	11,032	83,206	2,184	120,283	108
Current portion of long-term debt	578,705	230,000	2,448,521	9,864	3,267,090	-
Bonds payable from restricted assets	41,289	-	-	-	41,289	-
Custodial accounts	96,750	8,734	-	500	105,984	-
Total current liabilities	1,607,823	751,141	3,536,212	242,096	6,137,272	570,218
Noncurrent liabilities:						
Claims and judgments payable	-	-	-	-	-	613,387
Bonds, notes and loans payable	3,631,957	4,755,000	17,504,621	98,642	25,990,220	-
Bonds payable from restricted assets	40,000	-	-	-	40,000	-
Compensated absences	48,032	-	29,677	9,764	87,473	10,645
Total noncurrent liabilities	3,719,989	4,755,000	17,534,298	108,406	26,117,693	624,032
Total liabilities	5,327,812	5,506,141	21,070,510	350,502	32,254,965	1,194,250
Deferred inflows of resources	-	-	-	-	-	-
Total liabilities and deferred inflows	\$ 5,327,812	\$ 5,506,141	\$ 21,070,510	\$ 350,502	\$ 32,254,965	\$ 1,194,250
NET POSITION						
Net investment in capital assets	55,614,190	2,499,620	77,901,137	6,009,865	142,024,812	3,295,193
Restricted for capital assets	-	113,587	123,457	-	237,044	-
Restricted for debt service	283,164	-	1,258,746	-	1,541,910	-
Restricted for Worker's Compensation	-	-	-	-	-	100,000
Unrestricted	7,259,335	(145,138)	5,129,319	3,238,353	15,481,869	8,515,832
Total net position	\$ 63,156,689	\$ 2,468,069	\$ 84,412,659	\$ 9,248,218	\$ 159,285,635	\$ 11,911,025
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					9,198,660	
Net position of business-type activities					\$ 168,484,295	

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, 2013

	Business-type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Golf Course	Wastewater	Other Proprietary	Total	
OPERATING REVENUES						
Charges for services	\$ 8,823,025	\$ 3,846,550	\$ 13,118,681	\$ 2,410,168	\$ 28,198,424	\$ 4,550,066
Other operating revenue	1,007,894	-	21,129	396,697	1,425,720	15,922
Total operating revenues	9,830,919	3,846,550	13,139,810	2,806,865	29,624,144	4,565,988
OPERATING EXPENSES						
General operations	2,424,844	240,847	2,622,695	795,113	6,083,499	2,924,391
Contracted Operations	-	3,352,575	-	-	3,352,575	-
Maintenance	2,567,365	-	1,919,787	764,673	5,251,825	-
Customer service and marketing	358,470	-	229,518	103,819	691,807	-
General administration	987,712	-	1,007,950	264,037	2,259,699	380,582
Depreciation and amortization	2,064,840	172,252	3,282,051	106,668	5,625,811	584,043
Property, excise and B&O taxes	403,353	-	386,111	38,193	827,657	-
Risk transfer payments	-	18,471	-	-	18,471	493,179
Payments to claimants & beneficiaries	-	-	-	-	-	334,059
Total operating expenses	8,806,584	3,784,145	9,448,112	2,072,503	24,111,344	4,716,254
Operating income (loss)	1,024,335	62,405	3,691,698	734,362	5,512,800	(150,266)
NONOPERATING REVENUES (EXPENSES)						
Interest and investment revenue	71,676	1,574	26,794	7,426	107,470	36,696
Interest expense	(99,058)	(224,794)	(376,134)	(4,538)	(704,524)	-
Gain (loss) on capital asset disposal	(9,740)	1,500	(1,908)	-	(10,148)	(15,669)
Other nonoperating revenue/expense	308,246	2,591	40,678	24	351,539	6,878
Total nonoperating revenues (expenses)	271,124	(219,129)	(310,570)	2,912	(255,663)	27,905
Income (loss) before contributions and transfers	1,295,459	(156,724)	3,381,128	737,274	5,257,137	(122,361)
Capital contributions	764,584	-	2,427,969	684,993	3,877,546	28,069
Transfers to other funds	(1,866,011)	-	(3,171,252)	(481,739)	(5,519,002)	-
Transfers from other funds				27,000	27,000	-
Change in net assets	194,032	(156,724)	2,637,845	967,528	3,642,681	(94,292)
Total net position - beginning	63,057,045	2,645,796	81,807,770	8,280,690	155,791,301	12,005,317
Prior period adjustments (Note 19)						
Prior period adjustment	(94,388)	(21,003)	(32,956)	-	(148,347)	-
Total net position - ending	\$ 63,156,689	\$ 2,468,069	\$ 84,412,659	\$ 9,248,218	\$ 159,285,635	\$ 11,911,025
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					(541,302)	
Change in net position of business-type activities.					\$ 3,101,379	

See accompanying notes to the financial statements.

**Statement of Cash Flows
Proprietary Funds
for the Year Ended December 31, 2013**

Page 1 of 2

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Nonmajor Enterprise Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 8,653,555	\$ 3,853,846	\$ 13,114,996	\$ 2,169,632	\$ 27,792,029	\$ 4,542,479
Cash payments to suppliers	(2,782,779)	(3,527,696)	(3,107,549)	(1,031,009)	(10,449,033)	(1,988,836)
Cash payments to employees	(3,950,042)	-	(3,181,232)	(1,136,964)	(8,268,238)	(1,253,664)
Purchase of insurance	-	-	-	-	-	(515,685)
Payment for insurance claims	-	-	-	-	-	(319,664)
Other operating receipts and payments	888,753	-	21,129	488,736	1,398,618	14,047
Net cash provided by operating activities	2,809,487	326,150	6,847,344	490,395	10,473,376	478,677
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfer ins	-	-	-	27,000	27,000	-
Transfer outs	(1,844,860)	-	(2,605,399)	(473,718)	(4,923,977)	-
Other nonoperating revenues/expenses	308,973	(592)	39,578	24	347,983	6,059
Net cash provided (used) by noncapital financing activities	(1,535,887)	(592)	(2,565,821)	(446,694)	(4,548,994)	6,059
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition and construction of capital assets	(1,367,261)	-	(4,797,957)	(815,654)	(6,980,872)	(222,072)
Proceeds/costs on sale of assets	-	2,320	-	-	2,320	-
Capital contributions	422,837	-	811,723	115,147	1,349,707	-
Insurance recoveries	6,291	-	-	-	6,291	7,000
Collections on notes receivable	85,719	-	-	-	85,719	-
Loan/grant proceeds	-	-	583,960	638,809	1,222,769	-
Bond proceeds	-	5,175,000	-	-	5,175,000	-
Bond issuance costs	-	(47,014)	-	-	(47,014)	-
Principal paid bonds	(41,000)	(5,248,000)	(324,000)	-	(5,613,000)	-
Principal paid on other debt	(578,706)	-	(2,098,508)	(9,865)	(2,687,079)	-
Interest paid on bonds and other debt	(102,534)	(139,950)	(388,755)	(4,735)	(635,974)	-
Net cash provided (used) for capital and related financing activities	(1,574,654)	(257,644)	(6,213,537)	(76,298)	(8,122,133)	(215,072)
CASH FLOW FROM INVESTING ACTIVITIES						
Proceeds from repayment of loans	12,284	-	-	-	12,284	-
Net change in investments	128,223	(41,737)	1,068,932	4,112	1,159,530	2,788
Issuance of interfund loans	-	-	-	-	-	(385,000)
Interest on loans and investments	15,321	1,168	23,332	5,449	45,270	26,421
Net cash provided (used) in investing activities	155,828	(40,569)	1,092,264	9,561	1,217,084	(355,791)
Net increase (decrease) in cash and cash equivalents	(145,226)	27,345	(839,750)	(23,036)	(980,667)	(86,127)
Cash and equivalents - beginning	2,293,076	135,929	2,692,198	887,267	6,008,470	3,723,619
Cash and equivalents - ending	\$ 2,147,850	\$ 163,274	\$ 1,852,448	\$ 864,231	\$ 5,027,803	\$ 3,637,492
Cash at the end of the year consists of:						
Operating fund cash	2,147,850	163,274	1,852,448	864,231	5,027,803	3,637,492
Restricted cash	-	-	-	-	-	-
Total cash at end of year	\$ 2,147,850	\$ 163,274	\$ 1,852,448	\$ 864,231	\$ 5,027,803	\$ 3,637,492

See accompanying notes to the financial statements.

**Statement of Cash Flows
Proprietary Funds
for the Year Ended December 31, 2013**

Page 2 of 2

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Nonmajor Enterprise Funds	Total	Internal Service Funds
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ 1,024,335	\$ 62,405	\$ 3,691,698	\$ 734,362	\$ 5,512,800	\$ (150,266)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	2,064,840	172,252	3,282,051	106,668	5,625,811	584,043
Decrease (increase) in receivables	(248,284)	2,528	4,216	(234,955)	(476,495)	-
Decrease (increase) in due from other funds/govt	(36,098)	(101,720)	(25,051)	126,213	(36,656)	(17,526)
Decrease (increase) in prepaid expenses	11,256	-	-	-	11,256	16,141
Decrease (increase) in inventory	15,505	-	-	-	15,505	398
Increase (decrease) in accounts payable	(60,871)	64,889	(48,336)	(217,986)	(262,304)	31,586
Increase (decrease) in due to other funds/govt	606	19,629	(64,132)	(43,878)	(87,775)	(18,314)
Increase (decrease) in employee wages payable	8,652	98,709	(4,433)	11,509	114,437	(4,033)
Increase (decrease) in employee leaves payable	29,466	-	11,396	8,462	49,324	6,026
Increase (decrease) in other payables	(4,543)	7,458	(65)	-	2,850	30,622
Increase (decrease) in deferred revenues	4,623	-	-	-	4,623	-
Net cash provided by operating activities	<u>\$ 2,809,487</u>	<u>\$ 326,150</u>	<u>\$ 6,847,344</u>	<u>\$ 490,395</u>	<u>\$ 10,473,376</u>	<u>\$ 478,677</u>
Noncash investing, capital and financial activities						
Developers contributed infrastructure	\$ 774,363	\$ -	\$ 1,511,143	\$ 166,680	\$ 2,452,186	\$ 28,069

See accompanying notes to the financial statements.

Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2013

	Agency Funds
Assets	
Cash and cash equivalents	\$ 194,534
Total assets	<u>\$ 194,534</u>
 Deferred outflows of resources	 <u>\$ -</u>
 Liabilities	
Accounts/contracts payable	42,252
Other current liabilities	<u>152,281</u>
Total liabilities	<u>\$ 194,533</u>
 Deferred outflows of resources	 <u>\$ -</u>

See accompanying notes to the financial statements.

Notes to Financial Statements

January 1, 2013 – December 31, 2013

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 Parking fund is used to account for the revenues and expenditures for the entire City's parking facilities and lots along with all fees collected from parking violations.

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, grants from other agencies and contributions from other funds.

Nonmajor 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 2013.

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, 2013, the City was holding \$8,890,655 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 2013 was \$4,590,285.

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

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2013, \$105,460 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 nonspendable 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	\$ 1,870,924
Cash and investments - HUD programs	126,106
Cash and investments - Public safety	665,382
Cash and investments - Public Television	86,238
Investments - Workers compensation	100,000
Cash and investments - Tourism promotion	94,521
Cash and investments - Debt Service	17,000
External receivables - Tourism promotion	24,827
External receivables - Construction	44,392
External Receivables - Debt Service	5,143
Due from other governments - HUD	142,836
Due from other governments - Construction	13,353
Total governmental	<u>\$ 3,190,722</u>
Business type:	
Investments - Debt service	\$ 1,304,968
Investments - Construction	123,457
Receivables - Debt service	318,231
Total business	<u>\$ 1,746,656</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 not eligible 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:

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

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

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

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

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

	General Fund	Other Funds	Total
Fund balances:			
Nonspendable:			
Inventory	\$ 24,801	\$ -	\$ 24,801
Restricted for:			
Tourism promotion & facilities	50,179	119,348	\$ 169,527
Community development block grant		268,942	\$ 268,942
Public safety		665,382	\$ 665,382
Debt service		22,143	\$ 22,143
Capital projects		1,964,728	\$ 1,964,728
Committed to:			
Employee Wellness		7,259	7,259
Parks		33,859	33,859
Public Access Television		223,834	223,834
Public safety		40,805	40,805
Public art		51,906	51,906
Assigned to:			
Street Operations		175,765	175,765
Tourism promotion & facilities		23,774	23,774
Parking System		283,059	283,059
Building Abatement		261,563	261,563
Court Improvement		4,406	4,406
Debt Service		151,922	151,922
Park Capital		256,347	256,347
Capital Improvements		894,774	894,774
Unassigned:	4,794,308		4,794,308
Total Fund Balances	\$ 4,869,288	\$ 5,449,816	\$ 10,319,104

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, 2013.

Fund	Target Rate	Target Balance	Balance 12/31/2013
General	8.5%	\$ 3,023,284	\$ 3,958,334
Water	12%	1,569,768	5,049,070
Wastewater	12%	2,201,363	3,012,312
Stormwater	12%	373,750	2,024,350
Golf Course	12%	514,606	387,331

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 12/31/13 the balance was \$464,496. The fund balance of this management fund is reported as part of the General Fund. The 2013 amended 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 a 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	\$ 111,043,456
Capital Assets of Internal Service funds included in governmental activities net of depreciation	1,652
Net adjustment to increase fund balance - total governmental funds to arrive at net position of governmental activities	<u>\$ 111,045,108</u>

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

Deferred revenue for taxes and receivables due beyond the city's 30 day measurable and available period	\$ 3,146,660
Investment interest accrued beyond the city's 30 day measurable and available period	12,662
Build America Bond subsidy beyond the city's 30 day measurable and available period	39,490
Other post-employment benefits	105,296
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 3,304,108</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	\$ 2,712,365
Net capital assets of Internal Service funds included in governmental activities	(1,652)
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 2,710,713</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	\$ (31,275,000)
Less: Issuance premiums	(796,739)
Add: Deferred amount on refunding	1,119,825
Accrued interest payable	(247,316)
Compensated absences	(2,276,641)
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ (33,475,871)</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	\$ 4,752,140
Depreciation	(3,653,079)
Contributions of capital assets	736,603
Loss on retirement of capital assets	(1,028,976)
Net adjustment to increase net change in fund balances - governmental funds to arrive at change in net position - governmental activities	<u>\$ 806,688</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	\$ 10,025,000
Principal of GO Bonds Issued	(8,590,000)
Long Term Notes Issued	
Unamortized debt issuance costs	(683,892)
Net adjustment to decrease net change in fund balances - governmental funds	
to arrive at change in net position of governmental activities	\$ 751,108

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	\$ 9,680
Change in deferred property taxes receivable	(99,564)
Change in court fines receivable	(15,414)
Change in block grant loans receivable	(33,376)
Change in parking/red light fines receivable	(5,531)
Change in BKAT contracts receivable	(38,000)
Change in Build America Bond subsidy receivable	(3,677)
Change in other post-employment benefits payable	(277,251)
Change in accrued interest payable	(8,739)
Change in compensated absences payable	39,983
Net adjustment to decrease net change in fund balances - governmental funds	
to arrive at change in net position of governmental funds	\$ (431,889)

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	\$ 338,625
Net Revenue of employment security activities	203,212
Net Revenue of Accrued Leave activities	52,225
Net revenue of information technology activities	(7,577)
Net revenue of equipment maintenance activities	(139,475)
Net adjustment to decrease net change in fund balances - governmental funds	
to arrive at change in net position of governmental funds	\$ 447,010

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		\$ 9,419,949	
Cash on hand			3,997,219	
Total Cash & Cash Equivalents			13,417,168	
Investments				
US Agency securities				
Federal National Mortgage Assn	AA		6,014,900	35%
Federal Farm Credit Banks	AA		2,008,160	12%
Federal Home Loan Bank	AA		3,994,140	23%
Federal Home Loan Mortgage Corp	AA		5,148,970	30%
Total Investments			17,166,170	
Total Cash & Investments			30,583,338	

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 12/31/13 the City's investment in Federal National Mortgage Assn securities exceeded the 30% limit. In May of 2014 \$2M of FNMA securities were called and replaced by \$2M of US Treasury securities which brought the portfolio back into compliance with the 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 2013, the Kitsap Regional Library District levied \$0.39 per \$1,000 of assessed valuation, and therefore the City's maximum levy rate is \$3.21 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 2013 was \$2.761835 per \$1,000 on an assessed valuation of \$2.395 billion, for a total regular levy of \$6,629,413.

Special levies, approved by the voters are not subject to the above limitations. In 2013, the City levied an additional \$0.85 per \$1,000 for General Obligation Bonds and Emergency Medical Services, for a total additional levy of \$2,035,183.

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, 2013, was as follows:

	Beginning Balance 1/1/2013	Increases	Decreases	Ending Balance 12/31/2013
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 17,433,782	\$ 3,997,604	\$ 1,028,976	\$ 20,402,410
Construction in progress	17,167,537	4,753,066	17,622,367	4,298,236
Total capital assets, not being depreciated	34,601,319	8,750,670	18,651,343	24,700,646
Capital assets, being depreciated:				
Buildings/building improvements	56,690,930	6,851,537	-	63,542,467
Improvements other than buildings	17,675,569	2,367,253	-	20,042,822
Machinery and equipment	8,879,774	554,721	200,278	9,234,217
Infrastructure	37,282,840	4,586,930	-	41,869,770
Total capital assets, being depreciated	120,529,113	14,360,441	200,278	134,689,276
Less accumulated depreciation for:				
Buildings/buildings improvements	10,654,446	1,160,631	-	11,815,077
Improvements other than buildings	9,051,956	821,574	-	9,873,530
Machinery and equipment	5,893,263	478,814	200,278	6,171,799
Infrastructure	19,287,841	1,196,566	-	20,484,407
Total accumulated depreciation	44,887,506	3,657,585	200,278	48,344,813
Total capital assets, being depreciated, net	75,641,607	10,702,856	-	86,344,463
Governmental activities capital assets, net	<u>\$ 110,242,926</u>	<u>\$ 19,453,526</u>	<u>\$ 18,651,343</u>	<u>\$ 111,045,109</u>

Business-type Activities	Beginning Balance 1/1/2013	Increases	Decreases	Ending Balance 12/31/2013
Capital assets, not being depreciated:				
Land	\$ 9,106,702	\$ 9,991	\$ -	\$ 9,116,693
Construction in progress	4,294,244	7,265,857	8,546,744	3,013,357
Total capital assets, not being depreciated	13,400,946	7,275,848	8,546,744	12,130,050
Capital assets, being depreciated:				
Buildings/building improvements	53,984,553	486,822	-	54,471,375
Improvements other than buildings	134,256,794	5,611,053	218,732	139,649,115
Machinery and equipment	55,607,151	4,063,208	961,679	58,708,680
Total capital assets, being depreciated	243,848,498	10,161,083	1,180,411	252,829,170
Less accumulated depreciation for:				
Buildings/buildings improvements	19,427,622	1,028,600	-	20,456,222
Improvements other than buildings	41,462,415	2,607,069	218,732	43,850,752
Machinery and equipment	24,659,731	2,429,083	914,670	26,174,144
Total accumulated depreciation	85,549,768	6,064,752	1,133,402	90,481,118
Total capital assets, being depreciated, net	158,298,730	4,096,331	47,009	162,348,052
Business-type activities Capital assets, net	\$ 171,699,676	\$ 11,372,179	\$ 8,593,753	\$ 174,478,102

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

Governmental Activities:

General government	\$ 215,099
Public safety	577,272
Transportation, including depreciation of general infrastructure assets	1,178,763
Economic environment	348
Culture and recreation	1,681,597
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	4,506
Total depreciation expense - Governmental activities	<u>\$ 3,657,585</u>

Business-type activities:

Water	\$ 1,931,268
Wastewater	3,275,026
Stormwater	106,668
Golf	172,252
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	579,538
Total depreciation expense - Business-type activities	<u>\$ 6,064,752</u>

6. Construction Commitments

At December 31, 2013, the City had several construction projects underway. The following table contains the projects and status at year end.

Project	Spent to Date	Remaining Commitment
#5371- Primary Effluent Pump Construction	\$ 2,852,905	\$ 147,062
#102160- Pacific Avenue Construction	2,214,819	127,456
#827- Anderson Cove LID	294,017	5,921
#859- CIPP	82,202	3,103
#4392- Chemical Resistant Building	-	13,340
#4489- Warren Ave Bridge Main	24,435	1,430,805
Kitsap Conference Center	437,367	457,075
#59148- Evergreen Playground	-	267,548
#1066- 11th & Warren Improvements	86,871	7,229
	<u>\$ 5,992,616</u>	<u>\$ 2,459,539</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 2013, the TBD received total collections from vehicle license fees of \$431,866. \$53,629 was expended in 2013 for crack sealing of several city streets. 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 web site at www.ci.bremerton.wa.us.

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, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	263,347

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 payroll, as of December 31, 2013, 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
2013	\$ 60,423	\$ 886,733	\$ 110,633
2012	\$ 57,198	\$ 771,999	\$ 102,682
2011	\$ 59,297	\$ 690,533	\$ 88,187

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.

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:

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, 2012:

Retirees and Beneficiaries Receiving Benefits	10,189
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	689
Active Plan Members Vested	14,273
Active Plan Members Nonvested	2,633
Total	27,784

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 2013, the state contributed \$54.2 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 payroll, as of December 31, 2013, 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
2013	\$ 357	\$ 555,943
2012	\$ 545	\$ 549,928
2011	\$ 758	\$ 555,170

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 2013, 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 Plan 2 members can receive service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

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

Beneficiaries of a PSERS Plan 2 member with ten years of service who is killed in the course of employment, receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, 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, 2012:

Retirees and Beneficiaries Receiving Benefits	27
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	60
Active Plan Members Vested	2,083
Active Plan Members Nonvested	2,167
Total	4,337

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 payroll, as of December 31, 2012, 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
2013	\$ 11,719
2012	\$ 10,667
2011	\$ 9,864

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 2013 insurance coverage and risk retention:

<u>Risk</u>	<u>Coverage Limit Per Occurrence</u>	<u>Self-Insured Retention</u>	<u>Insurer</u>
Excess liability	\$10,000,000	\$500,000	Ironshore Specialty Insurance Company
Excess workers' compensation	Statutory	500,000	Safety National Casualty Corporation
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, 2013, the Risk Management Fund had cash and investment reserves of \$2,433,969. 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 \$613,387. 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 \$446,524.

The following table shows the actual claims activity for 2012 and 2013:

	2012	2013
Claims liability - beginning of year	\$ 1,759,683	\$ 892,184
Claims incurred	409,438	296,185
Estimate change prior years	(903,812)	26,536
Payment on claims	(373,125)	(292,009)
Claims liability - end of year	<u>\$ 892,184</u>	<u>\$ 922,896</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 12/31/2013
2010 LTGO BABS	09/01/35	3.61	\$ 6,350,000
2010 UTGO Refunding	12/01/27	3.07	9,245,000
2010 LTGO (B) BABS	12/01/30	3.42	2,120,000
2011 Promissory Note - Kitsap County	05/16/14	0	35,000
2012 LTGO Refunding - Govt Center	12/31/21	4.00	5,090,000
2013 LTGOA Refunding - Conf Ctr Pkg	12/01/36	3.01	8,435,000
2013 LTGOB Refunding - Golf Course	12/01/28	3.01	4,985,000
Total General Obligation Bonds and Notes			<u>\$ 36,260,000</u>

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

Year Ending December 31	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2013	\$ 1,260,000	\$ 1,189,400	\$ 230,000	\$ 132,383
2014	1,255,000	1,162,594	245,000	131,003
2015	1,310,000	1,130,287	285,000	128,920
2016	1,340,000	1,095,537	300,000	125,785
2017	1,390,000	1,056,478	315,000	121,585
2018-2022	7,670,000	4,587,311	1,665,000	505,135
2023-2027	8,435,000	2,978,760	1,945,000	228,975
2028-2032	5,860,000	1,397,362		
2033-2036	2,755,000	208,229		
Total	<u>\$ 31,275,000</u>	<u>\$ 14,805,958</u>	<u>\$ 4,985,000</u>	<u>\$ 1,373,785</u>

Revenue bonds and loans currently outstanding are as follows:

	Date	Rate	12/31/2013
1994 PWTf Loan - Warren Ave CSO	07/01/14	1.0	159,606
1995 PWTf Loan WWTP improvements	07/01/15	1.0	370,468
1996 PWTf Loan Callow Ave CSO I	07/01/16	1.0	454,336
1997 PWTf Loan Callow Ave CSO II	07/01/17	1.0	141,008
1998 PWTf Loan SR 303 water main	07/01/18	1.0	828,948
1999 PWTf Loan Tracyton water sys ph2	07/01/19	2.0	59,445
1999 PWTf Loan CSO design	07/01/20	1.0	292,755
2000 PWTf Loan Multi-Basin CSO	07/01/20	1.0	1,045,281
2000 PWTf Loan Callow CSO 3-5	07/01/20	1.0	1,564,007
2001 PWTf Loan East Bremerton CSO	07/01/21	0.5	1,266,667
2003 PWTf Loan Anderson Cove Basin 12	07/01/23	0.5	288,490
2003 PWTf Loan Naval Avenue	07/01/23	4.0	131,580
2004 PWTf Loan Brentwood storm drain red	07/01/24	4.0	108,507
2004 PWTf Loan Pacific Ave Basin CSO	07/01/24	0.5	769,751
2006 PWTf Loan WWTP upgrade	07/01/25	0.5	128,070
2007 PWTf Anderson Cove sewer PS CW1	07/01/27	0.5	497,369
2007 PWTf WWTP upgrades	07/01/27	0.5	2,281,446
1994 CCWF Loan Callow Ave CSO design	05/01/17	0.0	130,447
1997 CCWF Loan Callow Ave CSO I	07/31/18	4.8	922,166
1998 DWSRF Loan corrosion control facility	10/01/18	4.0	275,083
2009 DWSRF UV Treatment Upgrade (ARRA)	10/01/17	0.0	37,262
2001 DWSRF Loan Tracyton WD upgrade	10/01/21	2.5	1,116,659
2002 DWSRF Loan Eastside flow & pressure	10/01/22	2.5	549,182
2002 DWSRF Loan Casad Dam seismic upgrade	10/01/22	2.5	353,482
2003 DWSRF Loan Casad Dam intake tower	10/01/23	1.5	44,009
2003 DWSRF Loan Pump Station 4 upgrade	10/01/23	1.5	576,112
2004 DWSRF Loan Anderson Creek	10/01/24	1.5	59,200
2004 DWSRF Loan seismic upgrades	10/01/24	1.5	311,281
1999 WPCRF Loan CSO plan update	12/31/22	1.5	125,293
1999 WPCRF Loan Anderson Cove CSO	02/27/21	1.5	402,539
1999 WPCRF Loan Callow Ave CSO final	12/31/22	1.5	289,762
2002 WPCRF Loan Anderson CV CSO red	01/23/22	1.5	302,047
2002 WPCRF Loan Cherry/Trenton CSO red	10/15/24	1.5	615,099
2002 WPCRF Loan Trenton pump station	10/15/24	1.5	614,701
2002 WPCRF Loan Tracyton Beach CSO	12/31/25	1.5	372,939
2002 WPCRF Loan Anderson Cove Basin 12	12/31/26	1.5	179,096
2003 WPCRF Pacific Ave CSO red-sep	06/30/24	1.5	197,245
2003 WPCRF Loan Pacific Ave CSO reduction	12/31/27	1.5	786,766
2004 WPCRF Loan Cherry/Trenton CSO red-1	12/31/26	1.5	769,288
2007 WPCRF WWTP upgrade	01/01/29	2.6	523,085
2009 WPCRF Gorst Sewerage Constuction	12/31/30	1.4	533,492
2009 WPCRF Gorst Septic System Design	12/31/30	2.9	103,040
2009 WPCRF Gorst Sewerage Design	12/31/30	1.4	513,941
2013 WPCRF Gorst Sewerage Constuction	12/31/32	1.4	52,367
2007 W/S Refunding Revenue bond	12/01/21	4.3	3,210,000
Total revenue bonds and loans			24,353,317

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

Year Ending December 31	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2013	\$ -	\$ -	\$ 3,078,090	\$ 441,693
2014	-	-	2,949,119	385,735
2015	-	-	2,755,038	330,215
2016	-	-	2,604,228	277,077
2017	-	-	2,587,592	224,252
2018-2022	-	-	7,944,262	487,491
2023-2027	-	-	2,231,874	80,057
2028-2032	-	-	203,109	4,117
2033-2036	-	-	-	-
Total	\$ -	\$ -	\$ 24,353,312	\$ 2,230,637

On May 23, 2013, the City issued \$8,590,000 in limited tax general obligation bonds (non-taxable) to refund the City's outstanding limited tax general obligation note, 2011, in the amount of \$8,910,000 maturing on July 29, 2013 associated with the City's parking system. Moody's Investor Services affirmed the City's bond rating of A1 for the 2013 limited tax general obligation refunding bonds (non-taxable).

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, 2013, the city has \$174,065 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$1,541,910 in sinking funds and reserves as required by bond indentures.

B. Refunded Debt

On May 23, 2013, the City issued \$5,200,000 in limited tax general obligation bonds (taxable) to refund the City's outstanding limited tax general obligation bonds, 2009, in the amount of \$5,058,000 maturing on December 1 of the years 2013 through 2028, inclusive. These bonds are associated with the City's Gold Mountain Golf Complex. The 2009 Bond was held in the City's investment portfolio and could be prepaid at any time. As a result, the liability for the 2009 bonds has been removed from the business activities column of the statement of net position. This current refunding was undertaken to reduce total debt service payments over the next fifteen years by \$566,266 and resulted in an economic gain of \$420,473. Moody's Investor Services affirmed the City's bond rating of A1 for the 2013 limited tax general obligation refunding bonds (taxable).

11. Changes in Long Term Liabilities

During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2013	Additions	Reductions	Ending Balance 12/31/2013	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$ 32,675,000	\$ 8,590,000	\$ 10,025,000	\$ 31,240,000	\$ 1,225,000
Notes Payable	35,000	-	-	35,000	35,000
Add unamortized premiums	432,125	401,073	36,459	796,739	43,569
Less unamortized refunding exp	(1,194,683)	-	(74,858)	(1,119,825)	(74,858)
Total bonds payable:	31,947,442	8,991,073	9,986,601	30,951,914	1,228,711
Claims and judgments	892,184	322,721	292,009	922,896	309,509
Compensated absences	2,377,132	1,947,302	1,997,457	2,343,175	1,954,661
Governmental activity long-term liabilities:	\$ 35,216,758	\$ 11,261,096	\$ 12,276,067	\$ 34,217,985	\$ 3,492,881
Business-type Activities:					
Bonds payable:					
General obligation bonds	\$ 5,058,000	\$ 5,175,000	\$ 5,248,000	\$ 4,985,000	\$ 230,000
Revenue bonds	3,575,000	-	365,000	3,210,000	375,000
Less unamortized refunding exp	(204,043)	-	(24,856)	(179,187)	(25,598)
Total bonds payable:	8,428,957	5,175,000	5,588,144	8,015,813	579,402
Intergovernmental loans	23,776,504	53,883	2,687,077	21,143,310	2,703,090
Compensated Absences	464,349	431,701	382,377	513,673	426,200
Business-type activity long-term liabilities:	\$ 32,669,810	\$ 5,660,584	\$ 8,657,598	\$ 29,672,796	\$ 3,708,692

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 \$922,895 of Risk Management claims and judgments and \$66,534 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, 2013, 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 assisted programs. These grants are subject to audit by the grantor or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Management believes that such disallowances, if any, will be immaterial.

13. Restricted Net Position

The government-wide statement of net position reports \$5,883,934 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, 2013, were as follows:

		Due From						
		General Fund	Other Govt	Water	Waste-Water	Golf	Other Proprietary	Internal Service
Due To	General Fund	\$ -	\$ 49,273	\$ 119,508	\$ 279,442	\$ -	\$ 16,634	\$ -
	Other governmental funds	14,006	18,101	5,122			38,813	669
	Water	89,161						
	Wastewater	55,935	13,316	91,423			339	
	Other proprietary funds	12,874			17,433			
	Internal Service	35,539	2,057	4,094	2,902	1,943	1,581	1,242
Total		\$ 207,515	\$ 82,747	\$ 220,147	\$ 299,777	\$ 1,943	\$ 57,367	\$ 1,911
								\$ 871,407

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 2013. Interfund loans are approved by City Council Resolution and include a repayment date. The following schedule is a summary of loans outstanding at year end including the year of final payment.

Loaned From	Purpose	Yr of final Payment	Loaned To			
			General Fund	Other Govt	Golf Course	Total
Water	Park Land	2025	\$ 151,497	\$ -	\$ -	151,497
Internal service	Equipment purchase	2016	-		261,000	261,000
Internal service	Conference Ctr Exp	2020		385,000		385,000
General Fund	Park Plaza cash flow	2014		15,000		15,000
Total			\$ 151,497	\$ 400,000	\$ 261,000	\$ 812,497

B. Interfund Transfers

Interfund transfers at December 31, 2013 were as follows:

		Transfer From				
		General Fund	Other Govt	Water	Waste-Water	Other Proprietary
Transfer To	General Fund	\$ -	\$ 222,550	\$ 1,366,011	\$ 2,621,252	\$ 144,522
	Other governmental funds	731,755	459,437	500,000	550,000	337,217
	Other proprietary funds	27,000				
	Total	\$ 758,755	\$ 681,987	\$ 1,866,011	\$ 3,171,252	\$ 481,739
						\$ 6,959,744

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 2013 were as follows:

A total of \$1,281,326 was transferred into the Pacific Avenue Construction capital projects fund from the General (\$231,326), Water (\$500,000) and Wastewater (\$550,000) funds. The transfers were to fund the City's portion of the reconstruction of the roadway and utilities on Pacific Avenue between 6th and 11th Streets.

\$385,000 was transferred from the General fund to the Conference Center Expansion capital projects fund for the construction of expanded conference facilities on the third floor of the Kitsap Transit building adjacent to the Harborside Conference Center.

\$4,430,698 was transferred from the City's three utilities to the General (\$4,188,976) and Street (\$241,722) funds for the payment in lieu of taxes levied on those funds. The transfers were from the Water (\$1,366,011), Wastewater (\$2,621,252) and Stormwater (\$443,435) proprietary funds.

15. Receivable and Payable Balances

A. Receivables

Receivables at December 31, 2013 were as follows:

	Accounts	Taxes	Special Assessments	Notes Contracts	Other	Total
Governmental Activities:						
General Fund	\$ 1,532,394	\$ 2,263,332	\$ -	\$ 13,492	\$ -	\$ 3,809,218
Non-major and other funds	296,879	314,331	-	281,557	-	892,767
Reconciliation of balances in fund financial statements to government-wide financial statements	-	-	-	-	17,348	17,348
Total governmental activities	\$ 1,829,273	\$ 2,577,663	\$ -	\$ 295,049	\$ 17,348	\$ 4,719,333
Business-Type Activities:						
Water	\$ 1,565,461	\$ -	\$ 318,231	\$ 171,356	\$ 7,075	\$ 2,062,123
Golf	-	-	-	-	538	538
Wastewater	2,478,355	6,442	-	14,573	6,102	2,505,472
Other Proprietary Funds	1,035,972	-	-	-	2,847	1,038,819
Reconciliation of balances in fund financial statements to government-wide financial statements	-	-	-	(51,207)	7,295	(43,912)
Total business-type activities	\$ 5,079,788	\$ 6,442	\$ 318,231	\$ 134,722	\$ 23,857	\$ 5,563,040

B. Payables

Accounts Payable and other accrued liabilities at December 31, 2013 were as follows:

	Vendors	Salaries and Benefits	Retainage	Other	Total
Governmental Activities:					
General Fund	\$ 580,568	\$ -	\$ 1,735	\$ -	\$ 582,303
Non-major and other funds	1,069,967	-	69,002	-	\$ 1,138,969
Reconciliation of balances in fund financial statements to government- wide financial statements	126,855	-	-	247,316	374,171
Total governmental activities	\$ 1,777,390	\$ -	\$ 70,737	\$ 247,316	\$ 2,095,443
Business-Type Activities:					
Water	\$ 287,110	\$ -	\$ -	\$ -	\$ 287,110
Golf	139,724	-	-	-	139,724
Wastewater	352,911	-	115,234	-	468,145
Other Proprietary funds	55,481	-	29,290	-	84,771
Reconciliation of balances in fund financial statements to government- wide financial statements	976	-	-	-	976
Total business-type activities	\$ 836,202	\$ -	\$ 144,524	\$ -	\$ 980,726

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 (\$105,296) is included as a noncurrent asset on the Statement of Net Position.

	Fiscal Year Ending 12/31/13
Determination of Annual Required Contribution:	
Annual Normal Cost	\$ 1,492,940
Interest on Amortization Payment	(11,498)
Annual Required Contribution (ARC)	\$ 1,481,442
Determination of NET OPEB Obligation:	
Annual Required Contribution	\$ 1,481,442
Adjustment to ARC	33,727
Annual OPEB Cost	\$ 1,515,169
Contributions	(1,237,918)
Change in Net OPEB Obligations	\$ 277,251
Net OPEB Obligations - beginning of year	\$ (382,547)
Net OPEB Obligations - end of year	\$ (105,296)

* Unfunded Actuarial Accrued Liability (UAAL)

The City's OPEB cost, the percentage OPEB cost contributed to the plan and the net OPEB Assets for 2013 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)

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, 2013 was 13 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, 2013, for the combined utility operations are as follows:

Condensed Statement of Net Position

Assets

Current assets	\$ 13,787,265
Restricted assets	1,746,656
Capital assets	157,760,760
Other assets	672,989
Total assets	<u>173,967,670</u>

Liabilities

Current liabilities	4,582,822
Due to other funds	519,924
Payable from restricted assets	81,289
Long-term liabilities	<u>21,214,287</u>
Total liabilities	<u>26,398,322</u>

Net Position

Restricted for debt service	1,541,910
Restricted for capital replacement	123,457
Unrestricted	12,388,654
Net investment in capital assets	<u>133,515,327</u>
Total net position	<u><u>\$ 147,569,348</u></u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

Total operating revenues	\$ 22,970,729
Operating Expenditures:	
Operations & maintenance	12,907,805
Depreciation/amortization/depletion	5,346,891
Total operating expenses	<u>18,254,696</u>
Operating income(loss)	4,716,033
Non-Operating Revenues/Expenses	
Interest revenue/expense (net)	(376,722)
Other (net)	337,276
Total non-operating revenues/expenses	<u>(39,446)</u>
Capital contributions	3,192,553
Transfers	(5,037,263)
Change in net position	2,831,877
Beginning net position	144,864,815
Prior period adjustment	(127,344)
Ending net position	<u><u>\$ 147,569,348</u></u>

Condensed Statement of Cash Flows

Net cash provided By:	
(a) Operating activities	\$ 9,656,831
(b) Noncapital financing activities	(4,101,708)
(c) Capital and related financing activities	(7,788,191)
(d) Investing activities	1,248,092
Beginning cash and investment balance	4,985,274
Ending cash and investment balance	<u><u>\$ 4,000,298</u></u>

18. Accounting and Reporting Changes

The financial statements reflect the implementation of Statement No. 65 of the Governmental Accounting Standards Board (GASB) – Items Previously Reported as Assets and Liabilities. The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflow of resources (expenses or expenditures) or inflows of resources (revenues).

19. Prior Period Adjustments

GASB Statement No. 65, implemented in 2013, changed the recognition of debt issuance costs as an expense of the period in which the costs are incurred. Implementation guidance requires that the cumulative effect of applying this Statement should be reported as a restatement of beginning net position or fund balance for the earliest period reported. The Government wide and proprietary fund statements reflect prior period adjustments of (\$244,420) and (\$148,347) respectively as a result of implementation of this statement.

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>
12/31/2008	\$ -	\$ 16,191,238	\$ 16,191,238	0.0%	\$ 673,125	2405.38%
12/31/2009	\$ -	\$ 21,632,822	\$ 21,632,822	0.0%	\$ 461,567	4686.82%
12/31/2011	\$ -	\$ 17,942,584	\$ 17,942,584	0.0%	\$ 214,934	8300.00%

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2013

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
Economic Development Administration, Department Of Commerce	Investments for Public Works and Economic Development Facilities	11.300	07-01-06590		214,504	214,504	2
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-12-MC-53-0011		443,551	443,551	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	Program Income		6,400	6,400	3
Total CFDA 14.218				0	449,951	449,951	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Shelter Plus Care	14.238	WA0100C0T0110 4 - Tenant		12,561	12,561	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Shelter Plus Care	14.238	WA0100L0T01120 5- Tenant		20,309	20,309	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Shelter Plus Care	14.238	WA0098C0T0110 4 - Project		12,523	12,523	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Shelter Plus Care	14.238	WA0098L0T01120 5- Project		16,059	16,059	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Shelter Plus Care	14.238	WA0099C0T01110 4 - Sponsor		20,744	20,744	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Shelter Plus Care	14.238	WA0099L0T01120 5- Sponsor		66,226	66,226	
Total CFDA 14.238				0	148,422	148,422	

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
Office Of Community Planning And Development, Department Of Housing And Urban Development/Kitsap County	Home Investment Partnerships Program	14.239	Program Income	128		128	3
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	99002098		6,000	6,000	2
Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0344		28,534	28,534	2
Criminal Division, Department Of Justice	Equitable Sharing Program	16.922	WA0180100		49,618	49,618	6
Federal Highway Administration (fhwa), Department Of Transportation/WA State DOT	Highway Planning and Construction	20.205	HSIP-000S(242)	88,707		88,707	2
Federal Highway Administration (fhwa), Department Of Transportation/WA State DOT	Highway Planning and Construction	20.205	STPUS-0303(010)	528,343		528,343	2
Federal Highway Administration (fhwa), Department Of Transportation/WA State DOT	Highway Planning and Construction	20.205	STPUS-6585(001)	2,013,442		2,013,442	2
Federal Highway Administration (fhwa), Department Of Transportation/WA State DOT	Highway Planning and Construction	20.205	STPUS-9918(013)	1,045		1,045	2
Total CFDA 20.205				2,631,537		2,631,537	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation/WA Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	N/A	3,960		3,960	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation/WA Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	N/A	2,261		2,261	
Total CFDA 20.601				6,221		6,221	

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
Environmental Protection Agency	Puget Sound Watershed Management Assistance	66.120	PO-00J08701-0		323,772	323,772	2
Office Of Water, Environmental Protection Agency/Dept. of Ecology	ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	L10S0020	101,870		101,870	5
Total CFDA 66.458				101,870		101,870	
Total Federal Awards Expended:				2,739,756	1,220,801	3,960,557	

CITY OF BREMERTON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013

NOTE 1- BASIS OF ACCOUNTING

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

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - PROGRAM INCOME

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

NOTE 4 - FEDERAL LOANS

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

NOTE 5 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009

Expenditures for this program were funded by ARRA.

NOTE 6 - EQUITABLE SHARING PROGRAM

The amount listed represents expenditures during 2013 of funds received through the Asset Forfeiture Program. All funds received through this program were expended at 12/31/13.

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

City of Bremerton Kitsap County January 1, 2013 through December 31, 2013

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the City of Bremerton.

Finding ref number: 1	Finding caption: The City does not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.
Name, address, and telephone of auditee contact person: Cathy Johnson, Finance Director 345 6th Street, Suite 600 Bremerton, WA 98337 (360) 473-5296	
Corrective action the auditee plans to take in response to the finding: <i>At the time the City contracted for engineering services we were unaware of the requirement to check whether the consultant was suspended or debarred. We became aware of this requirement in the fall of 2013, and to address this issue we accessed the System for Award Management website in September of 2013 to confirm there were no issues. Additionally, we instituted additional controls by including language in all consultant contracts requiring the consultant to certify that neither they, nor any sub-consultants "are presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from participation in this transaction by any Federal department or agency." Having implemented this change we believe we have sufficient controls in place to ensure compliance with this requirement.</i>	
Anticipated date to complete the corrective action: 9/30/2013	

Finding ref number: 2	Finding caption: The City does not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.
Name, address, and telephone of auditee contact person: Cathy Johnson, Finance Director 345 6th Street, Suite 600 Bremerton, WA 98337 (360) 473-5296	
Corrective action the auditee plans to take in response to the finding: 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.	
Anticipated date to complete the corrective action: 9/17/2014	

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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