



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Bremerton

For the period January 1, 2017 through December 31, 2017

Published September 24, 2018

Report No. 1022212





Office of the Washington State Auditor

Pat McCarthy

September 24, 2018

Mayor and City Council
City of Bremerton
Bremerton, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

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

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Bremerton January 1, 2017 through December 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs:

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

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

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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

**City of Bremerton
January 1, 2017 through December 31, 2017**

Mayor and City Council
City of Bremerton
Bremerton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bremerton, as of and for the year ended December 31, 2017, 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 17, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

September 17, 2018

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

City of Bremerton
January 1, 2017 through December 31, 2017

Mayor and City Council
City of Bremerton
Bremerton, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Bremerton, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

Purpose of this Report

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

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

Pat McCarthy
State Auditor
Olympia, WA

September 17, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Bremerton January 1, 2017 through December 31, 2017

Mayor and City Council
City of Bremerton
Bremerton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bremerton, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 14.

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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 14 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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2018 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.



Pat McCarthy

State Auditor

Olympia, WA

September 17, 2018

FINANCIAL SECTION

City of Bremerton January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2017

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities – 2017

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
General Fund – 2017

Statement of Net Position – Proprietary Funds – 2017

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2017

Statement of Cash Flows – Proprietary Funds – 2017

Statement of Fiduciary Net Position – Fiduciary Funds – 2017

Notes to the Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

LEOFF 1 Retiree Medical Benefits – Schedule of Funding Progress – 2017

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3, PSERS,
LEOFF 1, LEOFF 2 – 2017

Schedule of Employer Contributions – PERS 1, PERS 2/3, PSERS, LEOFF 2 – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

**City of Bremerton
Management's Discussion and Analysis
December 31, 2017**

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, 2017. 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 2017, the assets and deferred outflows of the City exceeded its liabilities and deferred inflows by \$287 million. The net investment in capital assets accounts for 85 percent of this amount (\$244 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 3.0 percent of this amount (\$9.6 million). The remaining net assets of \$33 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net position increased by \$16 million 6% during the fiscal year. The governmental net position increased by \$11.3 million (12%) from the amount reported in 2016. Business-type net position increased by \$4.9 million (3%).
- As of December 31, 2017, the City's governmental funds reported a combined fund balance of \$20.8 million, an increase of 13% from the prior year end. The fund balance of the General Fund increased by \$3.1 million while the remaining non-major governmental funds had a fund balance increase of \$58,000. \$7.3 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 \$13 million fund balance, \$4.1 million has been committed or assigned for specific purposes while \$9.1 million is unassigned and available to the City for future appropriation. The remaining fund balance of \$18,957 is non-spendable inventories.
- At the end of 2017, the unassigned fund balance of the General Fund was \$9.1 million or approximately 26 percent of total General Fund expenditures of \$35.5 million. The General Fund's unassigned fund balance increased by \$2.4 million from the prior year's amount of \$7.96 million.
- The City's total outstanding debt decreased by 3.1 million 5% during the current fiscal year to \$63.1 million. General obligation debt decreased by \$1.7 million and revenue debt decreased by 1.1 million. The city did not issue any new debt in 2017.
- The City's net investment in Capital Assets increased 12.9 million in 2017. Total Capital assets from governmental activities increased \$6.3 million or (6%). Total Capital assets from business type activities increased \$6.5 million or 4%. The Governmental increases are primarily due to the close out of multiple major projects in the City, including, Washington Avenue Connector, Austin Drive, the purchase of the first floor of the Norm Dicks Government Center and other transportation related projects.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

The City maintained twenty-six (26) individual governmental funds in 2017. The City's General fund is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are combined into a single column labeled "Other Governmental Funds". Information for each of the non-major governmental funds is provided in the combining statements in this report.

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

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

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

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

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

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

The City has one type of fiduciary fund – agency funds. *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, 2017 totaled \$287 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		
	2017	2016	Difference	2017	2016	Difference	2017	2016	Difference
Current Assets	\$ 24,773	\$ 20,967	\$ 3,806	\$ 34,647	\$ 37,706	\$ (3,059)	\$ 59,420	\$ 58,673	\$ 747
Restricted Assets	6,810	7,876	(1,066)	1,711	2,051	(340)	8,521	9,927	(1,406)
Capital Assets	120,094	113,758	6,336	183,564	177,237	6,327	303,658	290,995	12,663
Other Noncurrent Assets	7,715	4,001	3,714	199	-	199	7,914	4,001	3,913
Total assets	159,392	146,602	12,790	220,121	216,994	3,127	379,513	363,596	15,917
Deferred outflows of resources	2,282	3,863	(1,581)	654	913	(259)	2,936	4,776	(1,840)
Current Liabilities	3,703	2,679	1,024	2,011	1,905	106	5,714	4,584	1,130
Payable from Restricted Assets	-	-	-	-	-	-	-	-	-
Noncurrent Liabilities	46,015	49,476	(3,461)	40,074	42,662	(2,588)	86,089	92,138	(6,049)
Total liabilities	49,718	52,155	(2,437)	42,085	44,567	(2,482)	91,803	96,722	(4,919)
Deferred inflows of resources	2,578	315	2,263	637	173	464	3,215	488	2,727
Net position									
Net Investment in Capital Assets	92,734	82,393	10,341	151,096	147,931	3,165	243,830	230,324	13,506
Restricted	5,930	7,876	(1,946)	4,415	9,751	(5,336)	10,345	17,627	(7,282)
Unrestricted	10,714	7,726	2,988	22,542	15,485	7,057	33,256	23,211	10,045
Total Net Position	\$ 109,378	\$ 97,995	\$ 11,383	\$ 178,053	\$ 173,167	\$ 4,886	\$ 287,431	\$ 271,162	\$ 16,269

The largest component of the City's net position, \$287 million (or 85%), is its investment in capital assets less any related outstanding debt issued to acquire those assets. These capital assets, such as utility plant, streets, trails, parks, fire and police vehicles, are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

Restricted net position consists of amounts legally or otherwise externally restricted for debt service and other programs. Of the \$5.9 million of governmental restrictions, \$3.69 million or 63% is restricted for the construction of capital assets. \$.756 million are special revenues restricted primarily for use in the Community Development Block Grant program, for public safety services \$.490, tourism promotion \$.589, public access television \$.142 and workers compensation liability \$.100. \$.167 million is restricted for debt service on outstanding debt. \$4.4 million of business-type restrictions are reserves required for debt service payments and asset replacement. A total of \$22.5 million represents the unrestricted net position of the City's business-type activities and may only be spent on golf course operations, water, wastewater and other utility activities. Maintenance of utility delivery systems (water lines, pump station, wells), storm drain flushing, water meter reading, and capital construction projects, such as well rehabilitation, are examples of utility activities. Other functions of the City may access the remaining \$10.5 million to meet ongoing obligations to citizens and creditors. Examples of other City obligations which this remaining amount may be used for are: public safety employee salaries, parks maintenance (mowing, fence repair, etc.), and ongoing street maintenance (street sweeping, restriping, resurfacing, etc.).

At the end of the fiscal year, the City reported positive balances in all three categories of net position for the government as a whole, 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 2017 with net position increasing approximately \$8.1 million. The net position of governmental activities increased by \$7.2 million and the net position of business-type activities increased by \$.851 million.

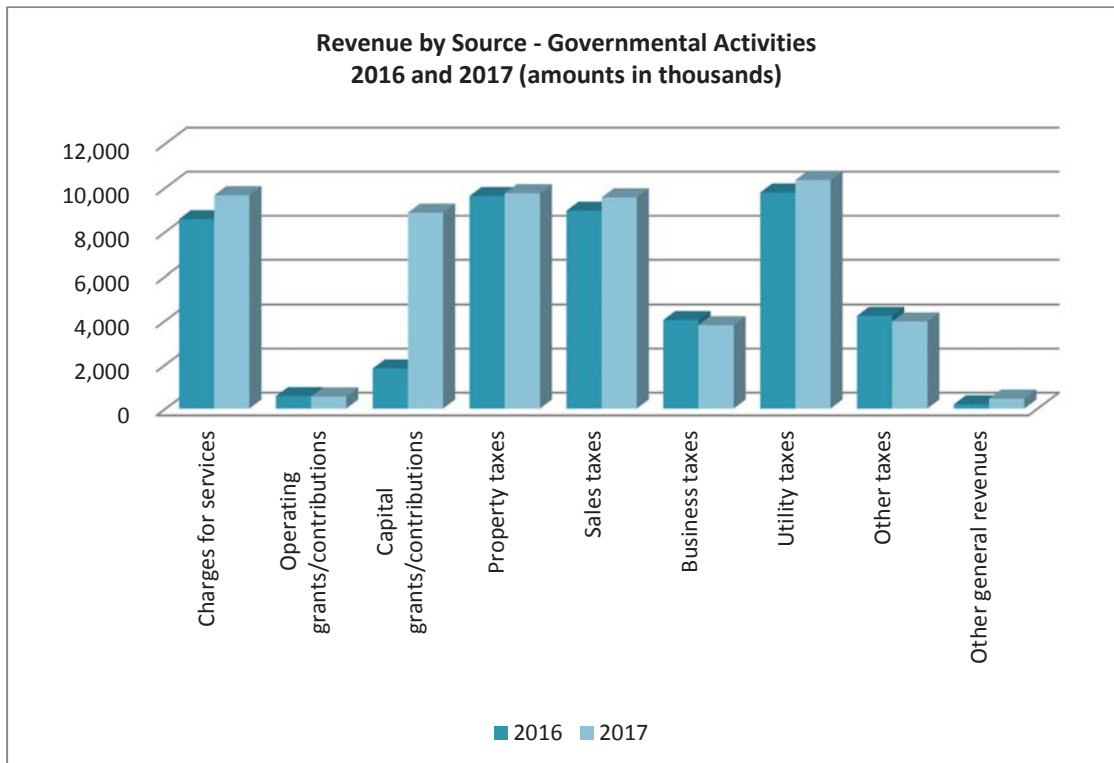
Following is a condensed version of the City's changes in net position. The table shows the revenues, expenses, and related changes in net position in tabular form for the governmental activities separate from the business-type activities. The graphs that follow compare program revenues to program expenses 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		
	2017	2016	Difference	2017	2016	Difference	2017	2016	Difference
Revenues									
Program revenues									
Charges for services	\$ 9,658	\$ 8,568	\$ 1,090	\$ 35,986	\$ 34,192	\$ 1,794	\$ 45,644	\$ 42,760	\$ 2,884
Operating grants/contributions	547	564	(17)	-	25	(25)	547	589	(42)
Capital grants/contributions	8,862	1,820	7,042	3,691	1,976	1,715	12,553	3,796	8,757
General revenues	-	-	-	-	-	-	-	-	-
Property taxes	9,747	9,618	129	-	-	-	9,747	9,618	129
Sales taxes	9,626	8,951	675	87	76	11	9,713	9,027	686
Business taxes	3,788	4,018	(230)	8	18	(10)	3,796	4,036	(240)
Utility taxes	10,338	9,774	564	-	-	-	10,338	9,774	564
Other taxes	3,970	4,210	(240)	-	-	-	3,970	4,210	(240)
Other general revenues	455	192	263	(109)	153	(262)	346	345	1
Total revenues	\$ 56,991	\$ 47,715	\$ 9,276	\$ 39,663	\$ 36,440	\$ 3,223	\$ 96,654	\$ 84,155	\$ 12,499
Expenses									
Governmental activities									
General government	4,368	4,206	162	-	-	-	4,368	4,206	162
Public safety	26,646	25,840	806	-	-	-	26,646	25,840	806
Transportation	6,015	5,515	500	-	-	-	6,015	5,515	500
Economic Environment	2,143	1,906	237	-	-	-	2,143	1,906	237
Culture and recreation	6,211	5,968	243	-	-	-	6,211	5,968	243
Interest on long-term debt	1,212	1,098	114	-	-	-	1,212	1,098	114
Business-type activities									
Water	-	-	-	13,690	13,164	526	13,690	13,164	526
Wastewater	-	-	-	13,653	12,726	927	13,653	12,726	927
Golf course	-	-	-	4,016	3,973	43	4,016	3,973	43
Stormwater	-	-	-	3,417	2,565	852	3,417	2,565	852
Total expenses	\$ 46,595	\$ 44,533	\$ 2,062	\$ 34,776	\$ 32,428	\$ 2,348	\$ 81,371	\$ 76,961	\$ 4,410
Excess of revenues over expenses	10,396	3,182	7,214	4,887	4,012	875	15,283	7,194	8,089
Transfers	-	(24)	24	-	24	(24)	-	-	-
Change in net position	10,396	3,158	7,238	4,887	4,036	851	15,283	7,194	8,089
Net position - beginning	97,995	94,837	3,158	173,167	169,131	4,036	271,162	263,968	7,194
Prior period adjustment	987	-	987	-	-	-	987	-	987
Net position - ending	\$ 109,378	\$ 97,995	\$ 11,383	\$ 178,054	\$ 173,167	\$ 4,887	\$ 287,432	\$ 271,162	\$ 16,270

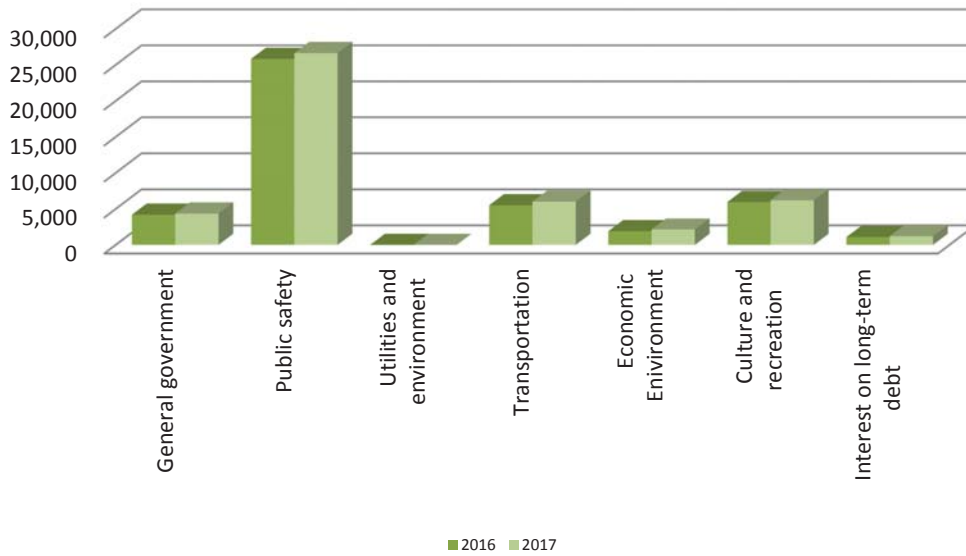
Governmental activities accounted for an increase of \$8.2 million of the total change in net position of \$9 million. Significant elements of the increase are as follows:

- The City saw a significant increase in sales, property and utility tax \$.603 million, \$.129 million and \$.564 million respectively.
- Expenditures decreased by 2.7% in 2017 compared to 2016. Small changes occurred in many functional areas, as a significant effort was made to match available resources.
- Total revenue from governmental activities in 2017 increased by \$9.2 million from 2016. Program revenues increased by \$1.087 million. Capital Grants had the largest impact on the increase in Fund Balance \$7 million.

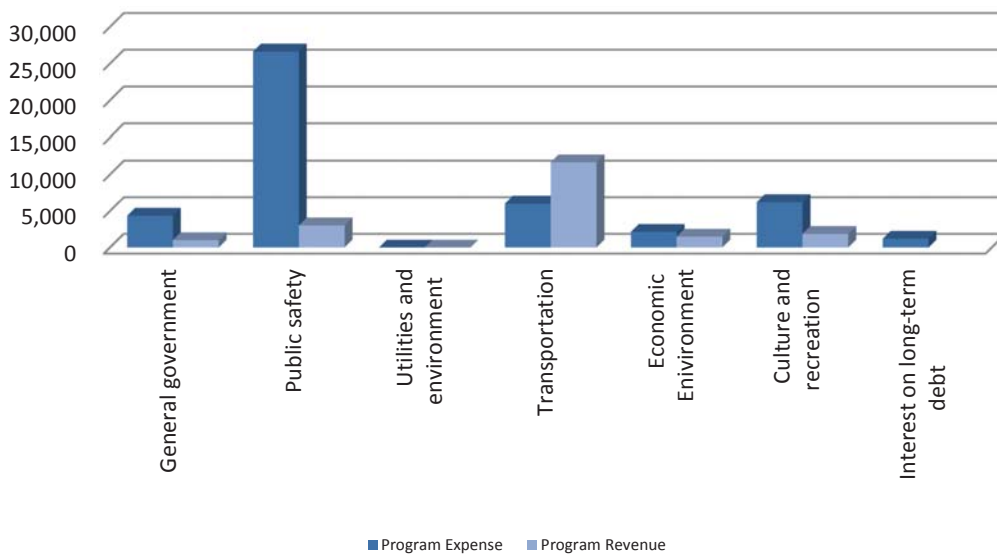
- Governmental net position increased overall by \$8.2 million in 2017. The major contribution to this was the increase in capital grant revenue of \$7 million.



Expenditures by Type - Governmental Activities
2016 and 2017
 (amounts in thousands)

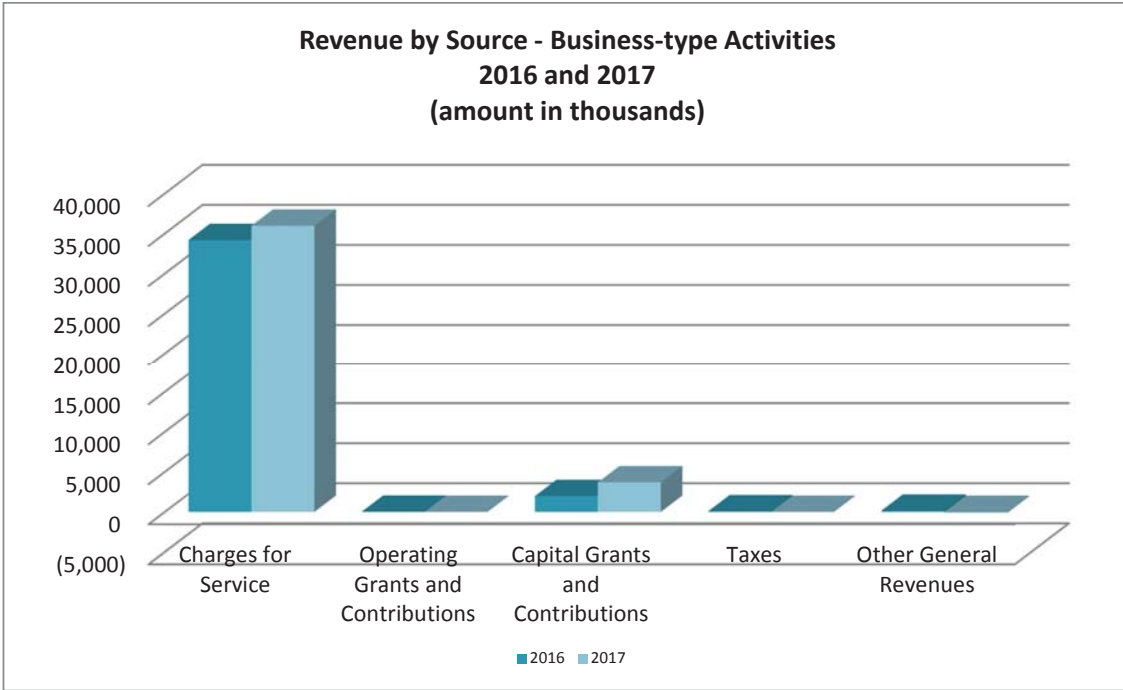


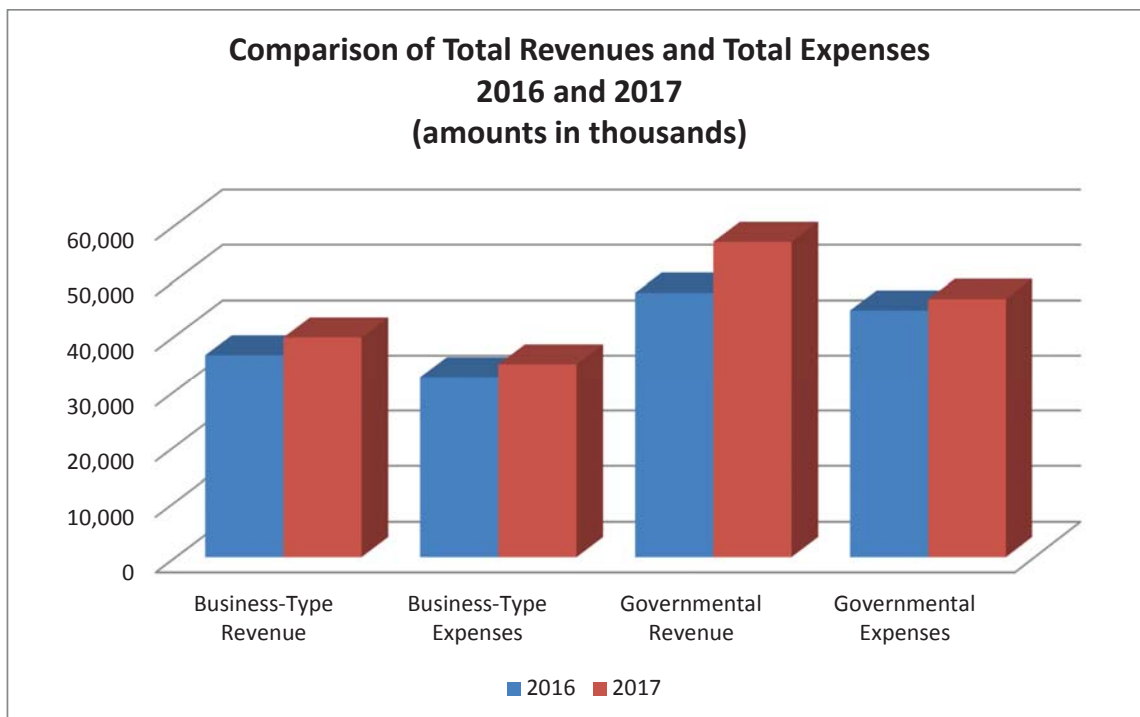
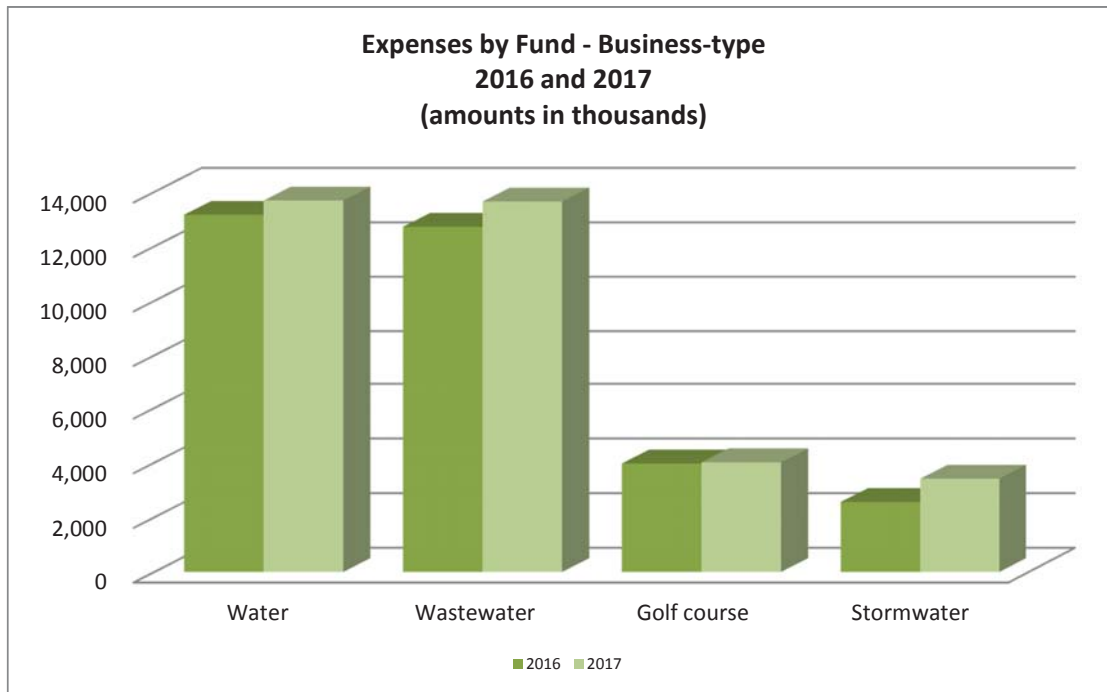
Program Expenses and Revenues - Governmental Activities
Year Ended 2017
 (amounts in thousands)

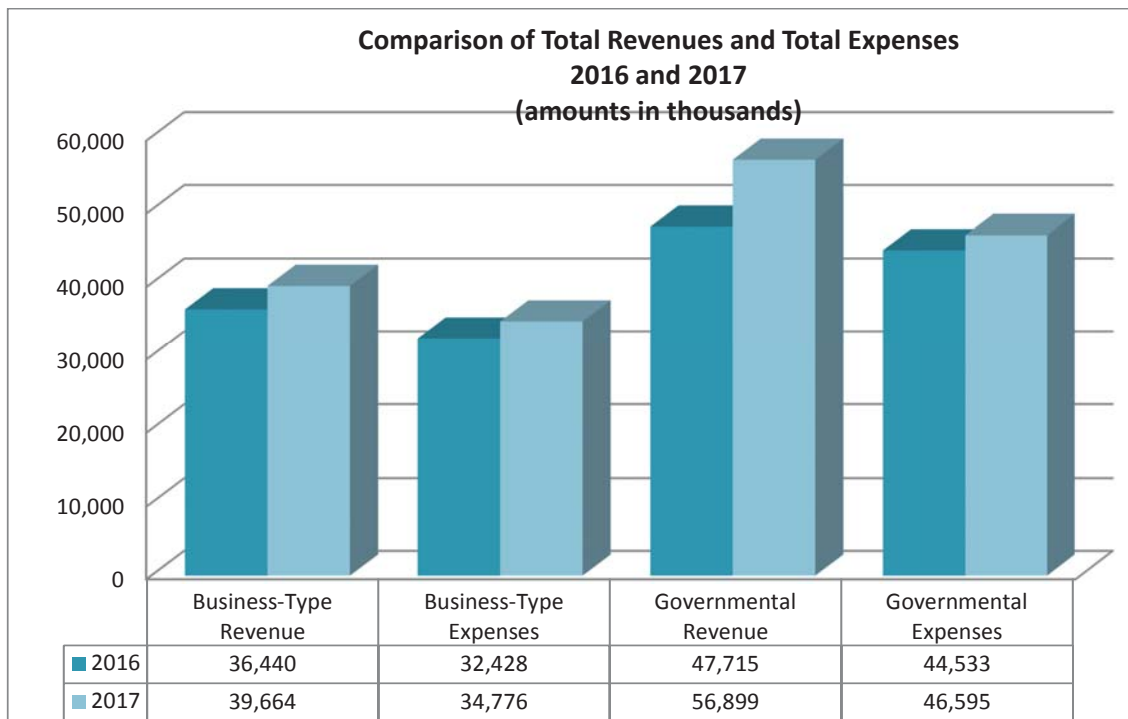


Business-type activities increased the City's net position by \$.851 million

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







Financial Analysis of the City's Funds

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

Governmental funds

The General Fund is the primary operating fund of the City through which all receipts and payments of City operations are processed, unless they are required to be accounted for in another fund. Taxes are the major revenue source. At the end of 2017, the fund balance of the General Fund was \$10.3 million. As a measure of the fund's liquidity, the 2017 ending fund balance is 29% of the fund's 2017 expenditures, an increase of 6% over 2016's 23%.

The General Fund ending fund balance increased in 2017 by \$2.4 million in 2017. Revenues increased from \$36.8 million in 2016 to \$37.8 million in 2017. The City saw steady increases over all revenue categories in 2018. Sales and Business taxes generated \$656 thousand of the \$1 million increase. Expenditures increase from \$33.7 million to \$35.5 million during the same period. Major highlights from the 2017 expenditure activity include the purchase of the 1st floor of the Norm Dick's Government Center from Housing Kitsap in November and increased public safety costs attributable to additional bike officer added in 2017.

Proprietary funds

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

General Fund Budget Variations

The General Fund collected revenues at 102% of the amended amount budgeted or \$.857 million more than budgeted. Expenditures for 2017 were 93% of the amended budget resulting in actual expenditures being \$3.1 million less than the budgeted amount. The positive expenditure budget variance is largely attributable savings in budgeted personnel.

The General Fund budget was balanced in 2017. The original budget provided for a decrease to the fund balance of \$957,978. The budget was amended two times during 2017. The final amended budget provided for a decrease to fund balance of \$1,682,305. At the conclusion of 2017, the General Fund increased budgetary fund balance by \$2,255,381.

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, 2017, amounts to \$304 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, construction in progress, utility transmission/distribution systems, roads and intangibles.

The major capital asset additions for governmental activities during 2017 street related projects in the amount of \$6.2 million. Specifically the City worked on the following:

- Washington Avenue Connector \$2,071,905
- Acceptance of Infrastructure Bayside Project \$2,324,695

The major capital assets changes for business-type activities included the construction of wastewater and water capital improvement projects identified within the City's 2017 capital improvement plan.

Amounts in 000's	Capital Assets (net of depreciation)								
	Governmental Activities			Business-Type Activities			Total		
	2017	2016	Difference	2017	2016	Difference	2017	2016	Difference
Land	\$ 20,082	\$ 20,316	\$ (234)	\$ 9,749	\$ 9,514	\$ 235	\$ 29,831	\$ 29,830	\$ 1
Buildings	46,728	48,419	(1,691)	34,972	33,003	1,969	81,700	81,422	278
Improvements/Infrastructure	39,038	35,333	3,705	97,795	96,148	1,647	136,833	131,481	5,352
Machinery and Equipment	2,511	1,943	568	36,342	32,103	4,239	38,853	34,046	4,807
Construction in Progress	11,669	7,742	3,927	4,492	5,981	(1,489)	16,161	13,723	2,438
Intangibles	5	5	-	213	222	(9)	218	227	(9)
TOTAL	\$ 120,033	\$ 113,758	\$ 6,275	\$ 183,563	\$ 176,971	\$ 6,592	\$ 303,596	\$ 290,729	\$ 12,867

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

Long-term debt

Amounts in 000's	Outstanding Debt - General Obligation and Revenue Bonds								
	Governmental Activities			Business-Type Activities			Total		
	2017	2016	Difference	2017	2016	Difference	2017	2016	Difference
General Obligation Bonds	\$ 29,520	\$ 31,235	\$ (1,715)	\$ 3,925	\$ 4,225	\$ (300)	\$ 33,445	\$ 35,460	\$ (2,015)
General Obligation Notes	-	-	-	-	-	-	-	-	-
Revenue Bonds	-	-	-	15,440	16,335	(895)	15,440	16,335	(895)
Revenue Loans	-	-	-	14,217	14,415	(198)	14,217	14,415	(198)
TOTAL	\$ 29,520	\$ 31,235	\$ (1,715)	\$ 33,582	\$ 34,975	\$ (1,393)	\$ 63,102	\$ 66,210	\$ (3,108)

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 2017 annual budget. The outlook for the nation, state and region was weighed in relation to its expected impact on Bremerton. The character of the City, including its current and future business activity and its attraction as a place to live, was evaluated. The national, regional and local economic conditions continued to show improvement during 2017.

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 and the Lower Wheaton Way Washington Ave and Lebo Blvd Pedestrian Access funds. In 2017 the City was awarded multiple state and federal grants. Future outside funding opportunities will be highly competitive and Bremerton, due to its current economic demographics, should compete very well for certain projects.

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

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

In May 2012, the City began a yearlong comprehensive rate analysis on its Water, Wastewater, and Stormwater utilities, to include an analysis of its revenue and capital requirements for a minimum six year horizon. As a result of a yearlong comprehensive rate analysis on it Water, Wastewater and Stormwater utilities the City Council adopted the analysis and the first of planned annual rates increases on April 3, 2013 to adequately fund the operations and maintenance, capital, and the anticipated debt service needs for the three utilities. Rates have been increase gradually from 2014 to 2017 to keep up with the funding requirements of the utilities. The analysis anticipated the issuance of up to a maximum of \$35 million in revenue bonds over six years. In 2016 the City issued \$7.855 million in Revenue bonds to finance identified capital improvements.

Requests for information

This financial report is designed to provide a general overview of the City's finances for readers with an interest in municipal finances. Questions concerning any of the information provided in this report, or requests for additional information, may be addressed to the Director of Financial Services, City of Bremerton, 345 Sixth Street, Suite 100, Bremerton, WA 98337-1873.

City of Bremerton
Statement of Net Position
December 31, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash & Cash Equivalents	\$ 6,233,397	\$ 12,454,272	\$ 18,687,669
Investments	10,214,649	14,475,482	24,690,131
Receivables	6,273,271	5,894,299	12,167,570
Internal balances	(311,034)	311,036	2
Due from other governments	1,446,041	25,443	1,471,484
Inventories	111,379	1,463,364	1,574,743
Prepayments	805,826	23,440	829,266
Restricted assets:			
Cash & Cash Equivalents	4,241,147	697,925	4,939,072
Investments	2,114,256	1,013,080	3,127,336
Receivables	97,559	-	97,559
Due from other governments	356,834	-	356,834
Notes and contracts receivable:			
Due within one year	-	-	-
Due in more than one year	-	198,516	198,516
Capital assets net of depreciation	120,093,644	183,564,169	303,657,813
Net Pension Asset	7,715,058	-	7,715,058
Total assets	\$ 159,392,027	\$ 220,121,026	\$ 379,513,053
Deferred outflows of resources			
Deferred amount on refunding	\$ 820,390	\$ -	\$ 820,390
Deferred amount related to pension	\$ 1,461,627	\$ 654,518	\$ 2,116,145
Total Deferred outflow of resources	\$ 2,282,017	\$ 654,518	\$ 2,936,535
Liabilities			
Accounts payable and other current liabilities	\$ 2,335,745	\$ 1,258,496	\$ 3,594,241
Employee wages payable	1,055,719	416,684	1,472,403
Other accrued liabilities	229,061	206,613	435,674
Custodial accounts	83,059	128,818	211,877
Noncurrent liabilities			
Net Pension Liability	5,313,696	4,618,132	9,931,828
Unearned Revenue	-	98,195	98,195
Due within one year	2,688,758	3,970,901	6,659,659
Due in more than one year	38,012,475	31,387,369	69,399,844
Total liabilities	\$ 49,718,513	\$ 42,085,208	\$ 91,803,721
Deferred inflows of resources related to pension	\$ 2,577,731	\$ 636,702	\$ 3,214,433
Net Position			
Net investment in capital assets	\$ 92,733,677	\$ 151,096,269	\$ 243,829,946
Restricted for:			
Tourism promotion & facilities	589,147	-	589,147
Community development block grant	756,224	-	756,224
Public safety	490,550	-	490,550
Public Access Television	141,634	-	141,634
Debt service	166,662	2,098,215	2,264,877
Workers compensation	100,000	-	100,000
Capital projects	3,685,968	2,316,890	6,002,858
Unrestricted	10,713,938	22,542,260	33,256,198
Total Net Position	\$ 109,377,800	\$ 178,053,634	\$ 287,431,434

See accompanying notes to the financial statements.

City of Bremerton
Statement of Activities
For the Year Ended December 31, 2017

	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
Function/Program							
Governmental activities:							
General government	\$ 4,368,302	\$ 1,014,634	\$ -	\$ -	\$ (3,353,668)	\$ -	\$ (3,353,668)
Public safety	26,645,815	2,949,104	84,144	-	\$ (23,612,567)	-	(23,612,567)
Transportation	6,014,666	2,924,824	-	8,737,567	\$ 5,647,725	-	5,647,725
Economic environment	2,142,745	1,029,158	462,517	-	\$ (651,070)	-	(651,070)
Culture and recreation	6,210,732	1,740,478	-	124,196	\$ (4,346,058)	-	(4,346,058)
Interest on long-term debt	1,211,659	-	-	-	\$ (1,211,659)	-	(1,211,659)
Total governmental activities	46,593,919	9,658,198	546,661	8,861,763	(27,527,297)	-	(27,527,297)
Business-type activities							
Water	13,690,176	13,350,060	-	1,054,593	-	714,477	714,477
Wastewater	13,653,478	14,897,564	-	1,614,984	-	2,859,070	2,859,070
Stormwater	3,417,408	3,435,182	-	1,021,517	-	1,039,291	1,039,291
Golf course	4,016,057	4,303,513	-	-	-	287,456	287,456
Total business-type activities	34,777,119	35,986,319	-	3,691,094	-	4,900,294	4,900,294
Total government	\$81,371,038	\$ 45,644,517	\$ 546,661	\$ 12,552,857	\$ (27,527,297)	\$ 4,900,294	\$ (22,627,003)
General Revenues							
Taxes:							
Property					9,746,766	-	9,746,766
Sales					9,626,108	87,043	9,713,151
Business					3,788,009	8,316	3,796,325
Utility					10,337,783	-	10,337,783
Other					3,969,957	-	3,969,957
Unrestricted investment interest					233,665	243,906	477,571
Miscellaneous					153,716	433,187	586,903
Gain/(Loss) on disposal of capital assets					67,272	(786,086)	(718,814)
Transfers, internal activities					-	-	-
Total general revenues and transfers					37,923,276	(13,634)	37,909,642
Change in net position					10,395,979	4,886,660	15,282,639
Net position-beginning					97,994,914	173,166,974	271,161,888
Prior period adjustment					986,907	-	986,907
Special Items					-	-	-
Net position-ending					\$109,377,800	\$ 178,053,634	\$287,431,434

See accompanying notes to the financial statements.

**City of Bremerton
Balance Sheet
Governmental Funds
December 31, 2017**

	General	Other Governmental Funds	Total Governmental Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Cash and equivalents	\$ 4,136,442	\$ 4,903,735	\$ 9,040,177
Investments	6,004,291	4,243,397	10,247,688
Receivables, net	5,337,894	999,873	6,337,767
Due from other funds	1,055,892	219,899	1,275,791
Due from other governments	20,208	1,746,594	1,766,802
Inventories	18,957	-	18,957
Other assets	-	552,941	552,941
Total assets	16,573,684	12,666,439	29,240,123
Deferred outflows of resources	-	-	-
Total assets and deferred outflows of resources	<u>\$ 16,573,684</u>	<u>\$ 12,666,439</u>	<u>\$ 29,240,123</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts/contracts payable	\$ 843,272	\$ 996,947	\$ 1,840,219
Due to other funds	1,335,860	347,050	1,682,910
Due to other governments	17,269	495	17,764
Employee wages payable	862,698	51,401	914,099
Custodial Accounts	68,059	15,000	83,059
Unearned revenue	1,871,712	696,860	2,568,572
Total liabilities	<u>4,998,870</u>	<u>2,107,753</u>	<u>7,106,623</u>
Deferred inflows of resources	<u>1,255,882</u>	<u>111,409</u>	<u>1,367,291</u>
Total liabilities and Deferred inflows of resources	<u>6,254,752</u>	<u>2,219,162</u>	<u>8,473,914</u>
Fund balances:			
Nonspendable	\$ 18,957	\$ -	\$ 18,957
Restricted	173,169	7,320,354	\$ 7,493,523
Committed	1,024,537	785,236	\$ 1,809,773
Assigned	-	2,341,687	\$ 2,341,687
Unassigned	9,102,269	0	\$ 9,102,269
Total fund balances	<u>10,318,932</u>	<u>10,447,277</u>	<u>20,766,209</u>
Total liabilities and fund balances	<u>\$ 16,573,684</u>	<u>\$ 12,666,439</u>	<u>\$ 29,240,123</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.	120,032,918
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	13,124,408
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.	1,678,552
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(46,224,287)
Net position of governmental activities	<u><u>\$ 109,377,800</u></u>

See accompanying notes to the financial statements.

City of Bremerton
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
for the Year Ended December 31, 2017

	General Fund	Other Governmental Funds	Governmental Funds Total
REVENUES			
Taxes			
Property	\$ 8,422,369	\$ 1,319,678	\$ 9,742,047
Sales	9,197,776	993,498	10,191,274
Business	13,153,456	321,498	13,474,954
Other	153,008	2,888,810	3,041,818
Licenses and permits	1,172,596	297,796	1,470,392
Intergovernmental	1,245,194	7,971,111	9,216,305
Charges for services	2,907,428	253,259	3,160,687
Fines and forfeitures	1,093,946	477,831	1,571,777
Miscellaneous	406,186	1,772,239	2,178,425
Total revenues	<u>37,751,959</u>	<u>16,295,720</u>	<u>54,047,679</u>
EXPENDITURES			
Current:			
General government	5,479,194	199,094	5,678,288
Public safety	23,150,243	180,154	23,330,397
Utilities and environment	24,450	-	24,450
Transportation	534,935	3,559,486	4,094,421
Economic environment	1,620,443	710,144	2,330,587
Mental/physical health	80,929	45,350	126,279
Culture and recreation	3,950,667	593,580	4,544,247
Debt service:			
Principal	-	1,715,000	1,715,000
Interest and other debt issue costs	2,350	1,225,789	1,228,139
Capital outlay	621,081	8,641,659	9,262,740
Intergovernmental payments	-	-	-
Total expenditures	<u>35,464,292</u>	<u>16,870,256</u>	<u>52,334,548</u>
Excess (deficiency) of revenues over expenditures	<u>2,287,667</u>	<u>(574,536)</u>	<u>1,713,131</u>
OTHER FINANCING SOURCES (USES)			
Capital asset donations & disposal	1,151,667	34,587	1,186,254
Insurance recoveries	10,076	3,142	13,218
Transfers in	281,330	1,997,375	2,278,705
Transfers out	(1,376,910)	(1,401,795)	(2,778,705)
Total other financing sources and uses	<u>66,163</u>	<u>633,309</u>	<u>699,472</u>
Net change in fund balances	2,353,830	58,773	2,412,603
Fund balances-beginning	7,965,102	10,388,507	18,353,609
Prior period adjustments	-	-	-
Fund balances-ending	<u>\$ 10,318,932</u>	<u>\$ 10,447,280</u>	<u>\$ 20,766,212</u>

See accompanying notes to the financial statements.

City of Bremerton
Reconcillation of the Statement of Revenues,
Expenditures and Changes in Fund Balance of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2017

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

Net change in fund balances – total government funds	\$ 2,412,603
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.	6,335,158
Revenues and expenses in the statement of activities that do not provide current financial resources are not reported in the funds.	1,040,913
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, government funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,723,694
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.	(1,116,389)
Change in net position of governmental activities	<u>\$ 10,395,979</u>

See accompanying notes to the financial statements

City of Bremerton
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual General Fund
For the Year Ended December 31, 2017

	Original Budget 2017	Final Budget 2017	Actual 2017	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 30,089,730	\$ 30,089,730	\$ 30,926,610	\$ 836,880
Licenses and permits	1,207,185	1,207,485	1,172,596	(34,889)
Intergovernmental	1,127,430	1,286,670	1,245,194	(41,476)
Charges for services	5,213,444	5,293,444	1,714,673	(3,578,771)
Fines and forfeitures	1,220,800	1,220,800	1,093,946	(126,854)
Other revenues	340,470	1,615,316	1,688,459	73,143
Total revenues	39,199,059	40,713,445	37,841,478	(2,871,967)
EXPENDITURES				
City Council	356,542	372,942	213,995	158,947
Executive	437,016	437,016	250,626	186,390
Finance	1,570,997	1,570,997	788,860	782,137
Legal	1,140,796	1,149,596	572,697	576,899
Human Resources	578,207	620,607	299,964	320,643
Community development	1,785,892	1,885,698	1,552,189	333,509
Municipal Court	1,393,329	1,393,329	1,356,418	36,911
City Auditor	79,541	79,541	47,574	31,967
Law enforcement	10,795,058	10,795,058	10,181,024	614,034
Fire/Emergency medical services	9,439,332	9,439,332	9,395,983	43,349
Police & fire pension	1,812,800	1,812,800	1,646,965	165,835
Facilities	1,268,829	1,895,646	1,214,552	681,094
Parks and recreation	2,826,066	2,841,066	2,605,806	235,260
Engineering	2,240,412	2,428,152	550,870	1,877,282
Non-departmental	4,432,220	5,673,970	4,878,761	795,209
Total expenditures	40,157,037	42,395,750	35,556,284	6,839,466
Excess (deficiency) of revenues over expenditures	(957,978)	(1,682,305)	2,285,194	3,967,499
Fund balances-beginning	5,866,029	7,498,995	7,498,995	-
Fund balances-ending	\$ 4,908,051	\$ 5,816,690	\$ 9,784,189	\$ 3,967,499

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.

\$ 534,743

Fund Balances Ending

\$ 10,318,932

EXPENDITURES				
Personnel	29,229,264	29,174,070		29,174,070
Supplies, services & taxes	9,831,890	10,691,243		10,691,243
Capital expenditure	115,000	839,554		839,554
Debt Service	-	-		-
Transfers	980,883	1,690,883		1,690,883
Total expenditures	40,157,037	42,395,750	-	42,395,750

**City of Bremerton
Statement of Net Position
Proprietary Funds
December 31, 2017**

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Stormwater	Total	Internal Service Funds
ASSETS AND DEFERRED OUTFLOWS						
Current assets:						
Cash and cash equivalents	\$ 2,932,541	\$ 266,761	\$ 5,609,732	\$ 2,065,760	\$ 10,874,794	\$ 2,913,845
Restricted cash	56,797	-	641,128	-	697,925	100,000
Investments	4,256,757	387,219	6,566,614	972,187	12,182,777	4,373,922
Restricted Investments	114,537	-	898,543	-	1,013,080	-
External receivables	1,969,814	81,952	2,730,833	679,674	5,462,273	-
Special assessments receivable	384,493	-	-	-	384,493	-
Interest receivables	12,018	1,038	19,722	2,607	35,385	17,730
Due from other funds	146,714	-	430,916	73,881	651,511	822,026
Due from other governments	-	-	-	25,443	25,443	-
Inventories	695,900	185,169	582,295	-	1,463,364	92,422
Prepayments	-	23,440	-	-	23,440	252,885
Total current assets	10,569,571	945,579	17,479,783	3,819,552	32,814,485	8,572,830
Noncurrent assets:						
Notes and contracts receivable	198,516	-	-	-	198,516	-
Capital assets net of depreciation	68,866,726	6,811,334	94,061,888	8,938,411	178,678,359	4,946,536
Total noncurrent assets	69,065,242	6,811,334	94,061,888	8,938,411	178,876,875	4,946,536
Total assets	79,634,813	7,756,913	111,541,671	12,757,963	211,691,360	13,519,366
Deferred outflows of resources	329,195	76,794	168,046	80,483	654,518	51,694
Total assets and deferred outflows	\$ 79,964,008	\$ 7,833,707	\$ 111,709,717	\$ 12,838,446	\$ 212,345,878	\$ 13,571,060
LIABILITIES AND DEFERRED INFLOWS						
Current liabilities:						
Accounts/contract payable	636,530	194,948	280,677	146,341	1,258,496	123,248
Claims and Judgements Payable	-	-	-	-	-	354,514
Due to other funds	457,296	79,138	348,620	104,040	989,094	77,322
Due to other governments	-	35,957	-	-	35,957	-
Employee wages payable	280,816	159,309	195,547	78,566	714,238	141,620
Other accrued liabilities	35,586	10,132	72,078	6,777	124,573	24
Current portion of long-term debt	956,477	315,000	2,327,106	86,664	3,685,247	-
Custodial accounts	3,504	124,814	-	500	128,818	-
Other current liabilities	46,083	-	-	-	46,083	-
Total current liabilities	2,416,292	919,298	3,224,028	422,888	6,982,506	696,728
Noncurrent liabilities:						
Claims and judgments payable	-	-	-	-	-	1,418,058
Bonds, notes and loans payable	8,675,755	3,610,000	16,614,318	2,029,066	30,929,139	-
Net pension liability	2,955,847	-	1,071,868	590,417	4,618,132	239,457
Unearned revenue	98,195	-	-	-	98,195	-
Compensated absences	229,728	-	155,423	61,179	446,330	44,004
Total noncurrent liabilities	11,959,525	3,610,000	17,841,609	2,680,662	36,091,796	1,701,519
Total liabilities	14,375,817	4,529,298	21,065,637	3,103,550	43,074,302	2,398,247
Deferred inflows of resources	328,211	-	214,146	94,345	636,702	75,501
Total liabilities and deferred inflows	\$ 14,704,028	\$ 4,529,298	\$ 21,279,783	\$ 3,197,895	\$ 43,711,004	\$ 2,473,748
NET POSITION						
Net investment in capital assets	59,234,494	2,963,128	75,847,117	8,165,720	146,210,459	4,946,536
Restricted for capital assets	-	247,198	726,654	1,343,038	2,316,890	-
Restricted for debt service	556,431	-	1,541,784	-	2,098,215	-
Restricted for Worker's Compensation	-	-	-	-	-	100,000
Unrestricted	5,469,055	94,083	12,314,379	131,793	18,009,310	6,050,776
Total net position	\$ 65,259,980	\$ 3,304,409	\$ 90,429,934	\$ 9,640,551	\$ 168,634,874	\$ 11,097,312
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					\$ 9,418,760	
Net position of business-type activities					\$ 178,053,634	

See accompanying notes to the financial statements.

City of Bremerton
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
for the Year Ended December 31, 2017

	Business-type Activities Enterprise Funds					Governmental Activities Internal Service Funds
	Water	Golf Course	Wastewater	Stormwater	Total	
OPERATING REVENUES						
Charges for services	\$ 12,607,530	\$ 4,303,513	\$ 14,879,928	\$ 3,425,836	\$ 35,216,807	\$ 5,122,199
Other operating revenue	742,530	-	17,636	9,346	769,512	1,413
Total operating revenues	13,350,060	4,303,513	14,897,564	3,435,182	35,986,319	5,123,612
OPERATING EXPENSES						
Operations and maintenance	11,007,785	118,736	9,306,135	2,965,722	23,398,378	3,564,804
Contracted Operations	-	3,583,520	-	-	3,583,520	-
Customer service and marketing	299,562	-	160,259	154,130	613,951	-
General administration	228,716	-	73,393	130,775	432,884	320,801
Depreciation and amortization	2,143,774	162,359	3,694,103	130,914	6,131,150	677,182
Risk transfer payments	-	-	-	-	-	682,111
Payments to claimants & beneficiaries	-	-	-	-	-	1,722,530
Other operating expenses	-	-	-	-	-	7,308
Total operating expenses	13,679,837	3,864,615	13,233,890	3,381,541	34,159,883	6,974,736
Operating income (loss)	(329,777)	438,898	1,663,674	53,641	1,826,436	(1,851,124)
NONOPERATING REVENUES (EXPENSES)						
Interest and investment revenue	86,693	3,335	92,723	33,922	216,673	46,124
Interest expense	(269,106)	(151,442)	(514,674)	(85,745)	(1,020,967)	-
Gain (loss) on capital asset disposal	(640,368)	1,500	(147,218)	-	(786,086)	(17,507)
Other nonoperating revenue/expense	322,071	15,092	141,656	49,727	528,546	3,488
Total nonoperating revenues (expenses)	(500,710)	(131,515)	(427,513)	(2,096)	(1,061,834)	32,105
Income (loss) before contributions and transfers	(830,487)	307,383	1,236,161	51,545	764,602	(1,819,019)
Capital contributions	1,054,593	-	1,614,984	1,021,517	3,691,094	1,133,478
Transfers to other funds	-	-	-	-	-	-
Transfers from other funds	-	-	-	-	-	-
Change in net position	224,106	307,383	2,851,145	1,073,062	4,455,696	(685,541)
Total net position - beginning	65,035,874	2,997,026	87,578,789	8,567,489	164,179,178	11,782,737
Prior period adjustment	-	-	-	-	-	116
Total net position - ending	\$ 65,259,980	\$ 3,304,409	\$ 90,429,934	\$ 9,640,551	\$ 168,634,874	\$ 11,097,312
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					430,848	
Change in net position of business-type activities.					\$ 4,886,544	

See accompanying notes to the financial statements.

City of Bremerton
Statement of Cash Flows
Proprietary Funds
for the Year Ended December 31, 2017

Page 1 of 2

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Stormwater	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$12,594,257	\$ 4,251,539	\$ 14,820,533	\$ 3,382,840	\$ 35,049,169	\$ -
Cash receipts from interfund services	59,496	-	-	-	59,496	4,975,876
Other receipts and payments	917,894	15,092	101,884	450	1,035,320	2,991
Cash payments to suppliers	(3,262,508)	(3,384,924)	(2,932,067)	(656,510)	(10,236,009)	(2,588,866)
Cash payments to employees	(3,622,787)	-	(2,747,519)	(928,815)	(7,299,121)	(1,461,570)
Cash payments for interfund services	(3,993,876)	(118,736)	(5,132,224)	(1,389,468)	(10,634,304)	(583,673)
Purchase of insurance	-	-	-	-	-	(473,982)
Payment for insurance claims	-	-	-	-	-	(1,164,152)
Net cash provided (used) by operating activities	2,692,476	762,971	4,110,607	408,497	7,974,551	(1,293,376)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Grant proceeds	-	-	-	70,297	70,297	-
Transfer ins	-	-	-	-	-	-
Transfer outs	-	-	-	-	-	-
Other receipts and payments	-	-	-	-	-	1,910
Net cash provided (used) by noncapital financing activities	-	-	-	70,297	70,297	1,910
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Bond proceeds	-	-	-	-	-	-
Loan proceeds	1,940,355	-	-	-	1,940,355	-
Capital contributions	504,156	-	342,090	169,543	1,015,789	1,133,478
Collections on notes receivable	66,984	-	-	-	66,984	-
Sale or involuntary conversion of capital assets	-	1,500	-	-	1,500	60,775
Transfer in for asset construction	-	-	-	-	-	-
Acquisition and construction of capital assets	(6,228,179)	-	(1,920,602)	(2,101,078)	(10,249,859)	(1,416,342)
Principal paid bonds	(178,383)	(300,000)	(671,817)	(64,800)	(1,215,000)	-
Principal paid on other debt	(862,960)	-	(1,648,079)	(9,865)	(2,520,904)	-
Bond issuance costs	-	-	-	-	-	-
Interest paid on bonds and other debt	(256,817)	(125,912)	(517,662)	(80,822)	(981,213)	-
Net cash provided (used) by capital and related financing activities	(5,014,844)	(424,412)	(4,416,070)	(2,087,022)	(11,942,348)	(222,089)
CASH FLOW FROM INVESTING ACTIVITIES						
Proceeds from repayment of loans	-	-	-	-	-	-
Interest on loans and investments	84,030	2,725	87,772	34,806	209,333	45,255
Net change in investments	(829,907)	(222,125)	(1,695,713)	375,001	(2,372,744)	(182,729)
Net cash provided (used) by investing activities	(745,877)	(219,400)	(1,607,941)	409,807	(2,163,411)	(137,474)
Net increase (decrease) in cash and cash equivalents	(3,068,245)	119,159	(1,913,404)	(1,198,421)	(6,060,911)	(1,651,029)
Cash and equivalents - beginning	6,057,583	147,602	8,164,264	3,264,181	17,633,630	4,664,874
Cash and equivalents - ending	\$ 2,989,338	\$ 266,761	\$ 6,250,860	\$ 2,065,760	\$ 11,572,719	\$ 3,013,845
Cash at the end of the year consists of:						
Operating fund cash	2,932,541	266,761	5,609,732	2,065,760	10,874,794	2,913,845
Restricted cash	56,797	-	641,128	-	697,925	100,000
Total cash at end of year	\$ 2,989,338	\$ 266,761	\$ 6,250,860	\$ 2,065,760	\$ 11,572,719	\$ 3,013,845

See accompanying notes to the financial statements.

**City of Bremerton
Statement of Cash Flows
Proprietary Funds
for the Year Ended December 31, 2017**

Page 2 of 2

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Stormwater	Total	Internal Service Funds
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ (329,777)	\$ 438,898	\$ 1,663,674	\$ 53,641	\$ 1,826,436	\$ (1,851,124)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	2,143,774	162,359	3,694,103	130,914	6,131,150	677,182
Nonoperating revenue in cash flow from operating activities	293,953	15,092	101,884	450	411,379	1,578
Contra pension expense	361,866	-	(703,553)	223,728	(117,959)	(37,744)
Prior year correction	-	-	-	-	-	-
Decrease (increase) in receivables	(100,630)	(38,267)	(77,031)	(93,095)	(309,023)	-
Decrease (increase) in due from other funds/govt	(146,714)	-	(401,955)	-	(548,669)	(146,324)
Decrease (increase) in prepaid expenses	-	5,128	-	-	5,128	208,129
Decrease (increase) in inventory	(9,528)	37,944	(15,055)	-	13,361	2,961
Increase (decrease) in accounts payable	105,438	100,310	(208,110)	54,328	51,966	(302,288)
Increase (decrease) in due to other funds/govt	293,952	9,942	51,424	21,765	377,083	77,322
Increase (decrease) in employee wages payable	25,556	45,272	(1,642)	7,337	76,523	379
Increase (decrease) in employee leaves payable	26,322	-	6,868	9,429	42,619	2,844
Increase (decrease) in other payables	28,264	(13,707)	-	-	14,557	73,709
Net cash provided by operating activities	<u>\$ 2,692,476</u>	<u>\$ 762,971</u>	<u>\$ 4,110,607</u>	<u>\$ 408,497</u>	<u>\$ 7,974,551</u>	<u>\$ (1,293,376)</u>
Noncash investing, capital and financial activities						
Developers contributed infrastructure	\$ 550,437	\$ -	\$ 1,272,894	\$ 851,974	\$ 2,675,305	\$ -

See accompanying notes to the financial statements.

City of Bremerton
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2017

	Agency Funds
Assets	
Cash and cash equivalents	\$ 486,834
Total assets	<u>\$ 486,834</u>
 Deferred outflows of resources	 <u>\$ -</u>
 Liabilities	
Accounts/contracts payable	30,600
Other current liabilities	456,234
Total liabilities	<u>\$ 486,834</u>
 Deferred inflows of resources	 <u>\$ -</u>

See accompanying notes to the financial statements.

City of Bremerton
Notes to Financial Statements
January 1, 2017 – December 31, 2017

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.

B. Government-wide and fund financial statements

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

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

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

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

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

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

Property taxes, fines and certain receivables for services provided are associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the

portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

The water and wastewater funds account for activities related to the ongoing operations of the City's water and sewer systems. The City's stormwater fund does not meet the criteria for presentation as a major fund but because it is the only other proprietary fund it is listed on the face of the proprietary fund statements with the major funds.

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

Additionally, the City reports the following fund types:

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

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

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

Internal service funds account for the accumulation of funds used to repair City vehicles and equipment and to replace them at the end of their useful lives. Funds are also accumulated for the purpose of carrying out the city's Risk Management, Information Technology Services, Self-insured medical program, Unemployment and Employee leave payout activities. In all cases, City departments contribute according to the benefit provided by each fund.

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

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

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

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

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for all funds except fiduciary fund types. All appropriations lapse at the end of each year. The budget is prepared using a basis of accounting substantially the same as the GAAP basis used in accounting for governmental funds. The budgetary basis of accounting differs from generally accepted accounting principles. The city budgets the Contingency Reserve and Conference Center activities as if they were special revenue funds. However, GAAP requires these activities to be reported within the General fund. The Conference Center fund does not have a significant stream of restricted resources and under GAAP the Contingency Reserve fund was established for a specific purpose, stabilization, which should be included in the General fund. From a budgetary perspective, the city budgets for each of these funds separately from the General fund. The budgetary comparison for the General Fund does not include the managerial funds.

2. Amending the Budget

The City's budget is adopted at the department and category group level. The five distinct category groups are 1) Personnel, 2) Supplies, Services and Taxes, 3) Debt Service, 4) Capital Expenditures and 5) Transfers. Expenditures may not legally exceed appropriations at that level of detail. The Mayor may authorize a one-time transfer of less than \$10,000 between category groups within a department. All other revisions within a fund or any revisions that alter the total expenditures of a fund, or affect the number of authorized employee positions or salary ranges must be approved by the City Council. The City's budget was amended two times in 2017.

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, 2017, the City was holding \$23,626,741 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 2017 was \$4,492,369.

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

2. Investments - See Note 3 Deposits and Investments.

3. Receivables

Receivables consist of property, B&O, utility, sales and parking taxes, and housing rehabilitation loans resulting from the federal Department of Housing and Urban Development., as well as other revenues earned by the City from the County, State and other taxpayers but not yet received. Also included are customers' accounts receivable which consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. As of December 31, 2017, \$384,493 of special assessments receivable were delinquent.

4. Amounts Due To and From Other Funds and Governments

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

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

5. Inventories

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

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

6. Restricted Assets and Liabilities

These accounts contain resources for programs, construction, replacement, and debt service. 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	\$ 4,842,432
Cash and investments - HUD programs	159,825
Cash and investments - Public safety	424,236
Cash and investments - Public Television	141,634
Cash and investments - Workers compensation	100,000
Cash and investments - Tourism promotion	546,086
Cash and investments - Debt Service	141,190
Receivables - Construction	94,709
Receivables - Debt Service	2,850
Due from other governments - HUD	43,458
Due from other governments - Construction	313,376
Total governmental	\$ 6,809,796
Business type:	
Cash and Investments - Debt service	\$ 1,711,005
Total business	\$ 1,711,005

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

Capital assets, which include property, plant, equipment, intangible and infrastructure assets, (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value per GASB 72, at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The cost of normal maintenance and repairs are not capitalized.

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

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

Assets	Years
Buildings	50 Years
Improvements Other than Buildings – Governmental Assets	20 Years
Improvements Other than Buildings – Proprietary Assets	50 Years
Infrastructure	10-15 Years
Plant Machinery and Equipment	20 Years
Furniture and Fixtures	20 Years
Vehicles and Similar Equipment	7-10 Years
Data Processing/Electronic Equipment	5 Years

8. Other Assets

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

9. Deferred outflow of resources

A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. This account includes the portion of a loss on the refunding of debt attributable to future periods. This account also includes pension costs attributable to future periods. See Note 8, *Pension Plans* for a discussion on pension reporting.

10. Compensated Absences

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

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

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

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

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

Compensatory time may be carried over from year to year.

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

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

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

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

11. Pensions

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

12. Other Current/Accrued Liabilities

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

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

14. Unearned revenue

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met. In proprietary funds this amount represents credit balances on customer utility accounts.

15. Deferred inflow of resources

A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period.

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

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

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

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

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

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

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

	General Fund	Other Funds	Total
Fund balances:			
Nonspendable:			
Inventory	\$ 18,957	\$ -	\$ 18,957
Restricted for:			
Tourism promotion & facilities	-	546,086	546,086
Community development block grant	-	203,283	203,283
Public safety	-	490,550	490,550
Public Access Television	-	141,634	141,634
Debt service	-	144,040	144,040
Capital projects	173,169	5,011,034	5,184,203

	General Fund	Other Funds	Total
Fund balances:			
Committed to:			
Fund balance stabilization	1,024,537	-	1,024,537
Employee Wellness	-	3,948	3,948
Parks	-	20,464	20,464
Building Abatement	-	-	-
Public Access Television	-	455,225	455,225
Public safety	-	30,424	30,424
Public art	-	38,710	38,710
Transportation	-	224,034	224,034
Other	-	12,430	12,430
Assigned to:			
Street Operations	-	1,485,275	1,485,275
Tourism promotion & facilities	-	28,443	28,443
Parking System	-	530,073	530,073
Building Abatement	-	299,310	299,310
Court Improvement	-	6,161	6,161
Debt Service	-	281,884	281,884
Park Capital	-	98,923	98,923
Capital Improvements	-	395,345	395,345
Unassigned:	9,102,269	-	9,102,269
Total Fund Balances	\$ 10,318,932	\$ 10,447,277	\$ 20,766,209

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

A minimum fund balance policy has been established by the City Council that establishes target year end operating cash and investment balances as a percentage of budgeted operating expenditures for the City's General, Water, Wastewater, Stormwater and Golf Course funds. The following table shows the status at December 31, 2017.

Fund	Target Rate	Target Balance	Balance 12/31/2017
General	8.5%	\$ 3,329,350	\$ 10,318,932
Water	12%	1,673,873	8,413,856
Wastewater	12%	1,649,828	16,000,566
Stormwater	12%	416,074	3,483,328
Golf Course	12%	481,927	156,112

A contingency reserve fund, for the purposes of economic stabilization, was created by the City Council to protect the City's General Fund in the event of unforeseen and unfunded emergency requirements. The target fund balance is set at 0.375/\$1,000 of assessed valuation. The proceeds of sale of all General Fund real property are committed to this purpose. Funds are to be expended, with the unanimous vote of the City Council, only in the event of a bona fide emergency defined as a significant crisis threatening the financial viability of the City. If the balance of the fund is less than the target amount a repayment plan shall be established to replenish the fund to its minimum level. Balances in excess of the stated amount can be used for capital purposes upon City Council approval by simple majority vote. For 2017 the target fund balance of the contingency reserve fund is \$1,024,536. At 12/31/17 the balance was \$1,024,536

2. Reconciliation of Government-wide and Fund Financial Statements

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

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

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

Capital Assets of governmental funds net of depreciation	\$ 120,032,918
Net adjustment to increase fund balance - total governmental funds to arrive at net position of governmental activities	<u>\$ 120,032,918</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	\$ 3,935,863
Investment interest accrued beyond the city's 30 day measurable and available period	27,481
Build America Bond subsidy beyond the city's 30 day measurable and available period	36,073
Net Pension Asset	7,715,058
Deferred Pension Outflows	1,409,933
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 13,124,408</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	\$ 1,678,552
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 1,678,552</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	\$ (29,520,000)
Less: Issuance premiums	(942,319)
Add: Deferred amount on refunding	820,390
Accrued interest payable	(229,037)
Compensated absences	(2,296,897)
Net Pension Liability	(5,074,239)
Deferred Pension Inflow	(2,502,230)
Other Post Employment Benefits	(6,479,955)
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ (46,224,287)</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	\$ 9,262,739
Depreciation	(4,088,645)
Gain/loss on retirement	(1,163,631)
Contributions of capital assets	2,324,695
Transfer of Assets to Utilities	0
Net adjustment to increase net change in fund balances - governmental funds	
to arrive at change in net position - governmental activities	<u>\$ 6,335,158</u>

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

GO bond principal paid	\$ 1,715,000
Principal of GO Bonds Issued	-
Premiums on Bonds Sold	-
Deferred Amount on Refunding	(74,858)
Ammortized Premium	83,552
Net adjustment to decrease net change in fund balances - governmental funds	
to arrive at change in net position of governmental activities	<u>\$ 1,723,694</u>

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

Change in accrued interest receivable	\$ 9,544
Change in deferred property taxes receivable	4,719
Change in court fines receivable	8,661
Change in block grant loans receivable	(26,762)
Change in parking/red light fines receivable	66,409
Change in BKAT contracts receivable	0
Change in Build America Bond subsidy receivable	4,267
Change in LEOFF 2 Special Rev GASB 68	0
Change in Pension Expense GASB 68	2,340,552
Change in other post-employment benefits payable	(1,658,202)
Change in accrued interest payable	7,787
Change in compensated absences payable	191,834
Net adjustment to decrease net change in fund balances - governmental funds	
to arrive at change in net position of governmental funds	<u>\$ 948,809</u>

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

Net revenue of risk management activities	\$ (260,930)
Net revenue of self insurance activities	\$ (526,896)
Net revenue of employment security activities	(27,537)
Net revenue of accrued leave activities	(261,150)
Net revenue of information technology activities	93,852
Net revenue of equipment maintenance activities	(133,728)
Net adjustment to decrease net change in fund balances - governmental funds	
to arrive at change in net position of governmental funds	<u>\$ (1,116,389)</u>

3. Deposits and Investments

A. Deposits

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

B. Investments

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

Cash & Cash Equivalents

Cash on hand	6,659,276
Total Cash & Cash Equivalents	<u>\$ 6,659,276</u>

	Investment Maturity (in Years)			
	Fair	<12 Months	13-24 Months	>25Months
Federal National Mortgage Association	\$ 4,952,910	\$ -	\$ 4,952,910	0
Federal Home Loan Bank	8,925,600	1,997,820	4,936,640	1,991,140
Federal Farm Credit Bank	1,980,700	0	1,980,700	0
State Treasurer's Investment Pool	17,438,084	17,438,084	0	0
US Treasury	11,958,260	7,984,600	1,993,820	1,979,840
Total	\$ 45,255,554	\$ 27,420,504	\$ 13,864,070	\$ 3,970,980

Total Cash and Investments	<u>\$ 51,914,830</u>
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Interest Rate Risk. As a means of limiting its exposure to realized fair value losses arising from rising interest rates, the City's investment policy requires that to the extent possible maturities be matched with anticipated cash flow requirements. Unless matched to a specific cash flow, the City is limited by the investment policy to maturities of five years or less.

Investment Type	Investment Maturity (in Years)				
	Fair Value	AAA/Aaa (2)	AA/Aa (2)	A (2)	Unrated
Federal Agency Obligations	\$ 15,859,210	\$ 15,859,210			
State Treasurer's Investment Pool	17,438,084				17,438,084
US Treasury	11,958,260	11,958,260			
Bank Deposits	6,659,276				6,659,276
Total	\$ 51,914,830	\$ 27,817,470	\$ -	\$ -	\$ 24,097,360
(1) Fair Value includes accrued interest					
(2) Rating agencies: Moody's AAA, AA, A; S&P Aaa, A					
(3) Measured at amortized cost					

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

Concentration of Credit Risk. The City's investment policy states that (with the exception of U.S. Treasury securities and the State Investment Pool) no more than 30% of the City's total investment portfolio will be invested in a single security type or with a single financial institution. At 12/31/16 the portfolio was in compliance with this policy.

Local Government Investment Pool	34%
Federal National Mortgage Association	10%
Federal Home Loan Bank	17%
Federal Farm Credit Bank	4%
US Treasury	23%

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

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

Investments Measured at Fair Value

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

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

Investments measured at Fair Value Level	Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3
Federal Agency Obligations	\$ 15,859,210	\$ -	\$ 15,859,210	
US Treasury	11,958,260	11,958,260		
Total	\$ 27,817,470	\$ 11,958,260	\$ 15,859,210	\$ -
Investments measured at amortized cost				
WA State LGIP	\$ 17,438,084			
Bank Deposits	6,659,276			
Total	\$ 24,097,360			
Total Investments	\$ 51,914,830			

Investments Measured at Amortized Cost

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

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 2017, 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 2017 was \$2.83 per \$1,000 on an assessed valuation of \$2.503 billion, for a total regular levy of \$7,099,825.

Special levies, approved by the voters are not subject to the above limitations. In 2017, the City levied an additional \$1.06 per \$1,000 for General Obligation Bonds and Emergency Medical Services, for a total additional levy of \$2,648,417.

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, 2017, was as follows:

	Beginning Balance 1/1/2017	Increases	Decreases	Ending Balance 12/31/2017
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 20,316,233	\$ -	\$ 234,622	\$ 20,081,611
Construction in progress	7,741,810	9,262,739	5,335,402	11,669,147
Intangibles	4,500	-	-	4,500
Total capital assets, not being depreciated	28,062,543	9,262,739	5,570,024	31,755,258
	Beginning Balance 1/1/2017	Increases	Decreases	Ending Balance 12/31/2017
Governmental Activities				
Capital assets, being depreciated:				
Buildings/building improvements	64,164,070	506,650	1,639,757	63,030,963
Improvements other than buildings	21,271,398	242,220	376,627	21,136,991
Machinery and equipment	8,926,732	867,455	16,145	9,778,042
Infrastructure	51,535,113	6,160,821	-	57,695,934
Total capital assets, being depreciated	145,897,313	7,777,146	2,032,529	151,641,930
Less accumulated depreciation for:				
Buildings/buildings improvements	15,744,577	1,309,677	751,649	16,302,605
Improvements other than buildings	12,172,375	713,040	195,977	12,689,439
Machinery and equipment	6,983,335	261,702	38,847	7,206,190
Infrastructure	25,301,086	1,804,225	-	27,105,311
Total accumulated depreciation	60,201,373	4,088,643	986,472	63,303,544
Total capital assets, being depreciated, net	85,695,940	3,688,503	1,046,057	88,338,386
Governmental activities capital assets, net	\$ 113,758,483	\$ 12,951,242	\$ 6,616,081	\$ 120,093,644

Business-type Activities	Beginning Balance 1/1/2017	Increases	Decreases	Ending Balance 12/31/2017
Capital assets, not being depreciated:				
Land	\$ 9,514,283	\$ 234,622	\$ -	\$ 9,748,905
Construction in progress	5,980,814	10,249,859	11,738,425	4,492,249
Intangibles	78,781	-	-	78,781
Total capital assets, not being depreciated	15,573,878	10,484,481	- 11,738,425	14,319,934
Capital assets, being depreciated:				
Buildings/building improvements	56,116,133	3,428,596	541,958	59,002,772
Intangibles	2,406,314	900	-	2,407,214
Improvements other than buildings	148,057,264	4,548,168	107,446	152,497,986
Machinery and equipment	64,629,932	7,549,343	2,520,908	69,658,367
Total capital assets, being depreciated	271,209,644	15,527,007	3,170,313	283,566,338
Less accumulated depreciation for:				
Buildings/buildings improvements	23,113,306	1,069,285	151,748	24,030,842
Intangibles	2,263,183	9,220	-	2,272,403
Improvements other than buildings	51,909,266	2,869,793	76,493	54,702,566
Machinery and equipment	32,526,462	2,860,033	2,070,203	33,316,292
Total accumulated depreciation	109,812,217	6,808,331	2,298,444	114,322,104
Total capital assets, being depreciated, net	161,397,426	8,718,677	871,868	169,244,235
Business-type activities Capital assets, net	\$ 176,971,304	\$ 19,203,157	\$ 12,610,293	\$ 183,564,169

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

Governmental Activities:

General government	\$ 222,516
Public safety	366,585
Transportation, including depreciation of general infrastructure assets	1,946,459
Economic environment	348
Culture and recreation	1,552,737
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	-
Total depreciation expense - Governmental activities	\$ 4,088,645

Business-type activities:

Water	\$ 2,143,774
Wastewater	3,694,103
Stormwater	130,914
Golf	162,359
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	677,182
Total depreciation expense - Business-type activities	\$ 6,808,331

6. Construction Commitments

At December 31, 2017, the City had several construction projects underway. The following table contains the projects and status at year end.

Project	Spent to Date	Remaining Commitment
Water System Scada Lifecycle Upgrade	602,774	5,226
ESTP Outfall Replacement Project	120,952	46,520
OB Transmission Main Repl Project	110,712	23,687
WWTP Sewer Interceptor Upgrades	178,825	134,662
Sewer Grit Study & OB Sewer Pre-design	147,836	147,836
Lebo Blvd Rodway Improvement Project	4,934,570	241,449
Construction Mgmt for Lebo Blvd Rd Proj	232,145	27,993
Rain Garden project	65,000	46,411
HSI Phase II & PSNS Safety Project	1,619,296	964,737
Manette Park Renovation	56,558	15,571
Crownhill Elementary Safe Routes to School	456,101	18,279
Interior Coating Repairs to Res 21	100,000	7,323
Admin of US EPA Brownfields Grant	75,000	64,299
Pavement Mgmt Prog & Sidewalk Assess	59,850	67,725
Sewage PS CW4 Upgrade & OF-12 Mod	260,760	221,271
	\$ 9,020,379	\$ 2,032,989

7. Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions for the year 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (9,931,829)
Pension assets	\$ 7,715,058
Deferred outflows of resources	\$ 2,116,145
Deferred inflows of resources	\$ (3,214,433)
Pension expense/expenditures	\$ 375,769

State Sponsored Pension Plans

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

Department of Retirement Systems

Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January - June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%
July - December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

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

The city's actual contributions to the plan were \$751,889 for the year ended December 31, 2017.

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

- With a benefit that is reduced by three percent for each year before age 65; or

- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January - June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	11.18%	6.12%
July - December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.70%	7.38%

* For employees participating in JBM, the contribution rate was 15.30%

The city's actual contributions to the plan were \$945,761 for the year ended December 31, 2017.

Public Safety Employees' Retirement System (PSERS)

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

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

PSERS membership includes:

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

PSERS covered employers include:

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

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

Contributions

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

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2017 were as follows:

PSERS Plan 2		
Actual Contribution Rates:	Employer	Employee
January - June 2017:		
PSERS Plan 2	6.59%	6.59%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.54%	6.59%
July - August 2017:		
PSERS Plan 2	6.73%	6.73%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	11.94%	6.73%
September - December 2017:		
PSERS Plan 2	6.74%	6.74%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	11.95%	6.74%

The city's actual contributions to the plan were \$12,572 for the year ended December 31, 2017.

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

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

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

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2017. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
January - June 2017:		
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
Total	5.23%	8.41%
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	
Total	8.59%	8.41%
July - December 2017:		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
Total	8.93%	8.75%

The city's actual contributions to the plan were \$560,851 for the year ended December 31, 2017.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2017, the state contributed \$58,339,032 to LEOFF Plan 2.

Actuarial Assumptions

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

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of Net Pension Liability

The table below presents the city's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
PERS 1	\$ 6,537,126	\$ 5,366,256	\$ 4,352,032
PERS 2/3	\$ 12,273,597	\$ 4,555,724	\$ (1,767,928)
PSERS 2	\$ 66,131	\$ 9,849	\$ (34,280)
LEOFF 1	\$ (1,979,841)	\$ (2,669,093)	\$ (3,261,004)
LEOFF 2	\$ 1,091,939	\$ (5,045,965)	\$ (10,046,872)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2017, the City reported a total pension liability of \$2,216,771 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 5,366,256
PERS 2/3	\$ 4,555,724
PSERS 2	\$ 9,849
LEOFF 1	\$ (2,669,093)
LEOFF 2	\$ (5,045,965)

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

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	\$ (2,669,093)	\$ (5,045,965)
State's proportionate share of the net pension asset associated with the employer	\$ (18,053,682)	\$ (3,273,223)
TOTAL	\$ (20,722,775)	\$ (8,319,188)

At June 30, 2017 the city's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.1188%	0.1131%	-0.0057%
PERS 2/3	0.1352%	0.1311%	-0.0041%
PSERS 2	0.0469%	0.0503%	0.0034%
LEOFF 1	0.1742%	0.1759%	0.0017%
LEOFF 2	0.3792%	0.3636%	-0.0156%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, the state of Washington contributed 87.12 percent of LEOFF 1 employer

contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2017, the state of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the city recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 28,872
PERS 2/3	\$ 570,684
PSERS	\$ 14,025
LEOFF 1	\$ (443,437)
LEOFF 2	\$ 205,626
TOTAL	\$ 375,770

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (200,254)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ 395,236	\$ -
TOTAL	395,236	(200,254)

PERS 2-3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 461,602	\$ (149,830)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (1,214,446)
Changes of assumptions	\$ 48,391	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 123,922	\$ (316,173)
Contributions subsequent to the measurement date	\$ 525,126	\$ -
TOTAL	1,159,041	(1,680,449)

PSERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,825	\$ (700)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (6,907)
Changes of assumptions	\$ 83	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 2,598	\$ (144)
Contributions subsequent to the measurement date	\$ 6,417	\$ -
TOTAL	14,923	(7,751)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (248,021)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ -	\$ -
TOTAL	-	(248,021)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 221,780	\$ (191,351)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (1,132,855)
Changes of assumptions	\$ 6,076	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 221,536	\$ (6,544)
Contributions subsequent to the measurement date	\$ 321,030	\$ -
TOTAL	770,422	(1,330,750)

Deferred outflows of resources related to pensions resulting from the city's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2018	\$ (135,359)
2019	\$ 42,735
2020	\$ (9,923)
2021	\$ (97,707)
Total	\$ (200,254)

Year ended December 31:	<i>PERS 2/3</i>
2018	\$ (532,075)
2019	\$ 81,062
2020	\$ (144,388)
2021	\$ (512,010)
2022	\$ 17,488
Thereafter	\$ 43,388
Total	\$ (1,046,535)

Year ended December 31:	<i>PSERS</i>
2018	\$ (1,113)
2019	\$ 1,601
2020	\$ 703
2021	\$ (1,083)
2022	\$ 83
Thereafter	\$ 563
Total	\$ 754

Year ended December 31:	<i>LEOFF 1</i>
2018	\$ (155,654)
2019	\$ 41,980
2020	\$ (16,764)
2021	\$ (117,583)
Total	\$ (248,021)

Year ended December 31:	<i>LEOFF 2</i>
2018	\$ (488,073)
2019	\$ 150,223
2020	\$ (45,393)
2021	\$ (458,049)
2022	\$ (7,155)
Thereafter	\$ (32,911)
Total	\$ (881,358)

8. Risk Management

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

Following is a summary of the City's 2017 insurance coverage and risk retention:

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

The risk manager and claims administrators establish reserves for open claims on a case by case basis, after an assessment of each claim's settlement value. Actuarial techniques are used to estimate the long-term liability of the fund for both reported and unreported losses. As of December 31, 2017, the Risk Management Fund had cash and investment reserves of \$851,868. 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 \$1,418,058. Cash balances adequate to pay currently due claims have been available in the fund since its inception in 1986. In the last three years, no settlement has exceeded the limit of liability on applicable insurance policies. The expected annual level of incurred claims is approximately \$354,514

The following table shows the actual claims activity for 2016 and 2017:

	2016	2017
Claims liability - beginning of year	\$ 1,154,731	\$ 1,698,748
Claims incurred	726,748	852,698
Estimate change prior years	206,073	0
Payment on claims	(388,804)	(778,874)
Claims liability - end of year	\$ 1,698,748	\$ 1,772,572

9. Long-term Debt

A. Long Term Debt

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

General obligation bonds currently outstanding are as follows:

	Maturity Date	Interest Rate	Outstanding 12/31/2017
LTGO 2010 BABS	9/1/2035	3.6125	\$ 5,595,000
2010 UTGO Refunding	12/1/2030	3.4191	7,005,000
2015 UTGO Fire Bonds	12/31/2025		3,410,000
2010 LTGO (B) BABS	12/1/2027	3.0664	1,595,000
2012 LTGO REFUNDING - GOVT CENTER	7/1/2034	2.7954	4,315,000
2013 LTGOA Refunding - Conf Ctr Pkg	12/1/2036	3.0082	7,600,000
2013 LTGOB Refunding - Golf Course	12/1/2028	3.0082	3,925,000
Total General Obligation Bonds and Notes			<u>\$ 33,445,000</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
2017	1,715,000	1,223,537	300,000	125,785
2018	1,770,000	1,176,978	315,000	121,585
2019	1,820,000	1,123,837	320,000	116,230
2020	1,880,000	1,068,797	325,000	109,670
2021-2025	10,520,000	4,286,085	1,755,000	412,465
2026-2030	7,325,000	2,285,153	1,210,000	95,745
2031-2035	5,640,000	864,107	0	
2036-2040	565,000	20,905		
Total	<u>\$ 31,235,000</u>	<u>\$ 12,049,399</u>	<u>\$ 4,225,000</u>	<u>\$ 981,480</u>

Revenue Bonds and Loans, Issuance, Redemption, and Balance Outstanding

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Outstanding 12/31/2017</u>
W/S REF & REVENUE BOND 2007	12/1/2021	4.28	1,700,000
W/S REF & REVENUE BOND 2014	12/1/2034	3.85	1,756,050
W/S REF & REVENUE BOND 2014	12/1/2034	3.85	4,398,950
W/S REF & REVENUE BOND 2016	12/1/2035	2.51	2,904,297
W/S REF & REVENUE BOND 2016	12/1/2035	2.51	2,860,304
W/S REF & REVENUE BOND 2016	12/1/2035	2.51	1,820,400
PWTF CALLOW CSO PRIORITY II	7/1/2017	1	(0)
PWTF SR 303 WATER MAIN	7/1/2018	1.00	165,790
PWTF CSO REDUCTION DESIGN	7/1/2020	1.00	97,584
PWTF EAST BREMERTON CSO	7/1/2021	0.50	633,333
PWTF MULTI BASIN CSO	7/1/2020	1.00	447,978
PWTF CALLOW CSO PRI. 3 / 5	7/1/2020	1.00	670,288
PWTF ANDERSON COVE BASIN 12	7/1/2023	0.50	173,094
PWTF NAVAL AVE	7/1/2023	4.00	78,947
PWTF BRENTWOOD STORM DRAIN REPAIR	7/1/2024	4.00	69,049
PWTF PACIFIC AVE BASIN CSO	7/1/2024	0.50	489,841
PWTF TRACYTON WATER SYS PH 2	7/1/2019	2.00	19,815
PWTF WWTP UPGRADE	7/1/2025	0.50	85,379
PWTF ANDERSON COVE SEW PS CW1	7/1/2027	0.50	355,264
PWTF WWTP UPGRADES	7/1/2027	0.50	1,629,604
CCWF CALLOW CSO DESIGN	5/1/2017	0	-
CCWF CALLOW CSO PRIORITY I PH 1	7/31/2018	4.80	202,332
DWSRF CORROSION CONTROL	10/1/2018	4.00	55,016
DWSRF CASAD DAM VALVE REPL	10/1/2023	1.50	26,406
DWSRF EASTSIDE FLOW & PRESSURE IMP	10/1/2022	2.50	305,101
DWSRF SEISMIC UPGRADE	10/1/2022	2.50	196,379
DWSRF ANDERSON CREEK	10/1/2024	1.50	37,673
DWSRF PUMP STATION 4 UPGRADE	10/1/2023	1.50	345,667
DWSRF SEISMIC UPGRADES	10/1/2024	1.50	198,088
DWSRF TRACYTON WD UPGRADE	10/1/2021	2.50	558,329

Revenue Bonds and Loans, Issuance, Redemption, and Balance Outstanding

	Maturity Date	Interest Rate	Outstanding 12/31/2017
ARRA DWSRF UV TREATMENT UPGRADE	10/1/2017	0.00	0
DWSRF SEISMIC VALVE FLOW CONTROL	12/1/2036	1.00	872,715
DWSRF RESERVOIR 4 COVER	10/1/2024		1,695,087
WPCRF CSO PLAN UPDATE	12/31/2022	1.50	71,681
WPCRF ANDERSON COVE CSO	2/27/2021	1.50	193,472
WPCRF CALLOW DESIGN FINAL	12/31/2022	1.50	165,776
WPCRF ANDERSON COVE CSO	1/23/2022	1.50	164,679
WPCRF TRENTON/CHERRY	10/15/2024	1.50	403,032
WPCRF ANDERSON COVE BASIN 12	9/17/2026	1.50	131,690
WPCRF TRENTON PUMP STATION	10/15/2024	1.50	402,771
WPCRF TRACYTON BEACH CSO	2/9/2025	1.50	250,423
WPCRF PACIFIC AVE CSO RED - SEP	6/30/2024	1.50	147,042
WPCRF PACIFIC AVE CSO REDUCTION	12/31/2027	1.50	586,518
WPCRF CHERRY/TRENTON CSO RED -F	12/31/2026	1.50	548,342
WPCRF WWTP UPGRADE	1/1/2029	2.60	411,935
WPCRF GORST SEWERAGE CONSTR	12/31/2030	1.40	419,132
WPCRF GORST SEWERAGE CONSTR	10/17/2032	1.40	42,469
WPCRF GORST SEPTIC SYSTEM DES	12/31/2030	2.90	83,147
WPCRF GORST SEWERAGE DESIGN	12/31/2030	1.40	403,772
Total Revenue Bonds and Loans			29,274,642

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

Year Ending December 31	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2018	1,770,000	1,176,978	315,000	121,585
2019	1,820,000	1,123,837	320,000	116,230
2020	1,880,000	1,068,794	325,000	109,670
2021	1,940,000	1,008,751	330,000	102,195
2022	2,010,000	942,069	340,000	93,450
2023-2027	10,345,000	3,458,933	1,875,000	296,185
2028-2032	5,810,000	1,663,437	420,000	16,380
2033-2036	3,945,000	383,060	-	-
Total	\$ 29,520,000	\$ 10,825,860	\$ 3,925,000	\$ 855,695

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, 2017, the city has \$425,924 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$2,098,215 in sinking funds and reserves as required by bond indentures.

B. Refunded Debt

In prior years, the City defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for defeased bonds are not included in the City's financial statements. At December 31, 2017 there were no defeased bonds outstanding

10. Changes in Long Term Liabilities

During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$ 31,235,000	\$ -	\$ 1,715,000	29,520,000	\$ 1,770,000
Notes Payable	-	-	-	-	-
Add unamortized premiums	1,025,871	-	83,552	942,319	-
Total bonds payable:	32,260,871	-	1,798,552	30,462,319	1,770,000
Claims and judgments	1,698,748	-	280,690	1,418,058	-
Compensated absences	2,530,818	-	189,917	2,340,901	918,759
Self Insurance	395,632	-	395,632	-	-
Other Post Employment Benefits	4,821,753	1,658,202	-	6,479,955	-
Pension Liability	7,767,783	-	2,454,087	5,313,696	-
Governmental activity long-term liabilities:	\$ 49,475,605	\$ 1,658,202	\$ 5,118,878	\$ 46,014,929	\$ 2,688,759
	Beginning Balance 1/1/2017	Additions	Reductions	Ending Balance 12/31/2017	Due Within One Year
Business-type Activities:					
Bonds payable:					
General obligation bonds	\$ 4,225,000	\$ -	\$ 300,000	\$ 3,925,000	\$ 315,000
Revenue bonds	16,355,000	-	915,000	15,440,000	990,000
Add unamortized premiums	1,495,265	-	80,520	1,414,745	-
Total bonds payable:	22,075,265			20,779,745	1,305,000
Intergovernmental loans	14,415,189	1,940,355	2,520,904	13,834,640	2,368,347
Compensated Absences	658,248	85,636	-	743,884	297,554
Pension Liability	5,432,716	-	814,584	4,618,132	-
Business-type activity long-term liabilities:	\$ 42,581,418	\$ 2,025,991	\$ 3,335,488	\$ 39,976,401	\$ 3,970,901

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 \$2,094,380 of Risk Management claims and judgments and \$42,087 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.

11. Contingencies and Litigation

As of December 31, 2017, there were a small number of claims for damages and lawsuits pending against the City. In the opinion of the City's legal counsel, neither the potential liability for any single claim or lawsuit, nor the aggregate potential liability arising from all actions currently pending would materially affect the financial condition of the City.

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

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

12. Restricted Net Position

The government-wide statement of net position reports \$9,583,601 of restricted net position, all of which is restricted by enabling legislation and external contractual commitments.

13. Interfund Balances and Transfers

A. Interfund Balances

Interfund balances at December 31, 2017, were as follows:

		Due From							Total
		General Fund	Other Govt	Water	Waste-Water	Golf	Storm-Water	Internal Service	
Due To	General Fund	\$ -	\$ 185,447	\$ 440,869	\$ 340,585	\$ -	\$ 31,664	\$ 7,624	\$ 1,006,189
	Other governmental funds	41,910	128,465	-	-	-	49,523	-	219,898
	Water	146,714	-	-	-	-	-	-	146,714
	Wastewater	430,916	-	-	-	-	-	-	430,916
	Stormwater	73,881	-	-	-	-	-	-	73,881
	Internal Service	120,544	33,108	16,427	8,036	39,754	22,853	69,698	310,420
Total		\$ 813,965	\$ 347,020	\$ 457,296	\$ 348,621	\$ 39,754	\$ 104,040	\$ 77,322	\$ 2,188,018

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 2018. Interfund loans are approved by City Council Resolution and include a repayment date. The following schedule is a summary of loans outstanding at year end including the year of final payment.

			Loaned To		
Loaned From	Purpose	Yr of final Payment	General Fund	Golf Course	Total
Internal service	Equipment purchase	2018	-	39,384	39,384
Internal service	Conference Ctr Exp	2034	472,222	-	472,222
Total			\$ 472,222	\$ 39,384	\$ 511,606

B. Interfund Transfers

Interfund transfers at December 31, 2017 were as follows:

	Transfer From		
	General Fund	Other Govt	Total
General Fund	\$ -	\$ 281,330	\$ 281,330
Other governmental funds	876,910	1,120,465	1,997,375
Total	\$ 876,910	\$ 1,401,795	\$ 2,278,705

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 2017 were as follows:

There were no significant transfers in 2017.

14. Receivable and Payable Balances

A. Receivables

Receivables at December 31, 2017, were as follows:

	Accounts	Taxes	Special Assessments	Notes Contracts	Other	Total
Governmental Activities:						
General Fund	\$ 2,041,510	\$ 2,318,499	\$ -	\$ 10,282	\$ -	\$ 4,370,291
Non-major and other funds	183,033	422,075	-	127,436	155,920	888,464
Reconciliation of balances in fund financial statements to government-wide financial statements	-	-	-	-	33,064	33,064
Total governmental activities	\$ 2,224,543	\$ 2,740,574	\$ -	\$ 137,718	\$ 188,984	\$ 5,291,819
Business-Type Activities:						
Water	\$ 1,923,582	\$ -	\$ 384,492	\$ 46,232	\$ -	\$ 2,354,306
Golf	81,953	-	-	-	-	81,953
Wastewater	2,715,242	15,590	-	-	-	2,730,832
Stormwater	679,673	-	-	-	-	679,673
Reconciliation of balances in fund financial statements to government-wide financial statements	-	-	-	-	47,535	47,535
Total business-type activities	\$ 5,400,450	\$ 15,590	\$ 384,492	\$ 46,232	\$ 47,535	\$ 5,894,299

B. Payables

Accounts Payable at December 31, 2017 were as follows:

	Vendors	Retainage	Other	Total
Governmental Activities:				
General Fund	\$ 837,921	\$ 5,351	\$ 17,269	\$ 860,541
Non-major and other funds	947,832	49,115	495	\$ 997,442
Reconciliation of balances in fund financial statements to government-wide financial statements	-	-	477,762	477,762
Total governmental activities	\$ 1,785,753	\$ 54,466	\$ 495,526	\$ 2,335,745
Business-Type Activities:				
Water	\$ 586,287	\$ 50,243	\$ -	\$ 636,530
Golf	194,948	-	-	194,948
Wastewater	247,122	33,555	-	280,677
Stormwater	135,352	10,989	-	146,341
Reconciliation of balances in fund financial statements to government-wide financial statements	-	-	-	-
Total business-type activities	\$ 1,163,709	\$ 94,787	\$ -	\$ 1,258,496

	Vendors	Retainage	Other	Total
Business-Type Activities:				
Water	\$ 586,287	\$ 50,243	\$ -	\$ 636,530
Golf	194,948	-	-	194,948
Wastewater	247,122	33,555	-	280,677
Stormwater	135,352	10,989	-	146,341
Reconciliation of balances in fund financial statements to government-wide financial statements	-	-	-	-
Total business-type activities	\$ 1,163,709	\$ 94,787	\$ -	\$ 1,258,496

15. 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 June 30, 2014. 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 \$6,479,955 is included as a noncurrent liability on the Statement of Net Position.

Determination of Annual Required Contribution:

	Fiscal Year Ending 12/31/17
Annual Normal Cost	\$ 3,353,100
Interest on Amortization Payment	192,870
Annual Required Contribution (ARC)	<u>\$ 3,545,970</u>

Determination of NET OPEB Obligation:

Annual Required Contribution	\$ 3,545,970
Adjustment to ARC	(240,803)
Annual OPEB Cost	<u>\$ 3,305,167</u>
Contributions	<u>(1,646,965)</u>
Change in Net OPEB Obligations	<u>\$ 1,658,202</u>
Net OPEB Obligations - beginning of year	<u>\$ 4,821,753</u>
Net OPEB Obligations - end of year	<u>\$ 6,479,955</u>

* Unfunded Actuarial Accrued Liability (UAAL)

The City's OPEB cost, the percentage OPEB cost contributed to the plan and the net OPEB Assets for 2017 and the preceding three years, was as follows:

Fiscal year Ended	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	Net OPEB Obligation
12/31/2011	\$ 1,366,185	104.22%	\$ (414,716)
12/31/2012	\$ 1,515,169	97.88%	\$ (382,547)
12/31/2013	\$ 1,515,169	81.70%	\$ (105,296)
12/31/2014	\$ 1,515,169	83.20%	\$ 149,310
12/31/2015	\$ 4,255,852	29.81%	\$ 3,136,336
12/31/2016	\$ 3,409,795	37.21%	\$ 4,821,753
12/31/2017	\$ 3,305,167	38.39%	\$ 6,479,955

Funded Status and Funding Progress

As of December 31, 2017, the City's LEOFF I member count is below 100 members. The City utilized the alternative actuary method prescribe by the Office of the State Actuary and permitted und GASB Statement No. 45. A single retirement age of 55.3 was assumed for all active members for the purpose of determining the AAL and normal cost. The retirement, disability, termination and mortality rates were assumed to follow LEOFF 1 rates used in the June 2014 actuarial valuation report issued by the Office of The State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method to determine the AAL was the Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individual and collectively reasonable for the purposes of this valuation. The actuarial accrued liability (AAL) for benefits was \$39,425,470.

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.

16. Segment Information

The City operates a utility system providing water, wastewater and stormwater management services to the citizens of Bremerton and a portion of Kitsap County outside city boundaries. Operations are financed by user fees imposed on customers of each utility. The City has issued revenue bonds to finance improvements to its sewer system. While the operations of each utility are accounted for in separate funds, the repayment of the revenue bonds relies on the combined revenues of all three utilities. In addition, the City operates a public golf course whose operations are funded entirely through user fees. 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, 2017, for the combined utility operations are as follows:

Condensed Statement of Net Position

Assets and Deferred Outflows

Current assets	\$ 30,157,901
Restricted assets	1,711,005
Capital assets	171,867,025
Other assets	198,516
Total assets	<u>203,934,447</u>
Deferred outflows of resources	577,724
Total assets and deferred outflows	<u>204,512,171</u>

Liabilities and Deferred Inflows

Current liabilities	5,141,352
Due to other funds	909,956
Payable from restricted assets	0
Long-term liabilities	32,493,696
Total liabilities	<u>38,545,004</u>
Deferred inflows of resources	636,702
Total liabilities and deferred inflows	<u>39,181,706</u>

Net Position

Restricted for debt service	2,098,215
Restricted for capital replacement	2,069,692
Unrestricted	17,915,227
Net investment in capital assets	143,247,331
Total net position	<u>\$ 165,330,465</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

Total operating revenues	\$ 31,682,806
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Operating Expenditures:

Operations & maintenance	24,326,477
Depreciation/amortization/depletion	5,968,791
Total operating expenses	<u>30,295,268</u>

Operating income(loss)	1,387,538
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Non-Operating Revenues/Expenses

Interest revenue/expense (net)	(656,187)
Other (net)	(274,132)
Total non-operating revenues/expenses	<u>(930,319)</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

Total operating revenues	\$ 31,682,806
Operating Expenditures:	
Operations & maintenance	24,326,477
Depreciation/amortization/depletion	5,968,791
Total operating expenses	<u>30,295,268</u>
Operating income(loss)	1,387,538
Non-Operating Revenues/Expenses	
Interest revenue/expense (net)	(656,187)
Other (net)	(274,132)
Total non-operating revenues/expenses	<u>(930,319)</u>
Capital contributions	3,691,094
Transfers	0
Change in net position	4,148,313
Beginning net position	161,182,152
Prior period adjustment	0
Ending net position	<u>\$ 165,330,465</u>

Condensed Statement of Cash Flows

Net cash provided By:	
(a) Operating activities	\$ 7,211,580
(b) Noncapital financing activities	70,297
(c) Capital and related financing activities	(11,517,936)
(d) Investing activities	(1,944,011)
Beginning cash and equivalents balance	<u>17,486,028</u>
Ending cash and equivalents balance	<u>\$ 11,305,958</u>

17. Tax Abatements

The City established a Multi-Family tax exemption in 2008. The program would allow developers defer property taxes on the improvements to the property for either an eight or 12 year period. To get the 12 year exemption the development would require 20% of the units rents be at low to moderate income levels. As of December 31, 2017 the City of Bremerton had one development receiving the eight year exemption, 606 Apartments. The deferred taxes in 2017 are reported as \$91,441. The overall assessed value of the property in 2017 was \$6,989,930

18. Prior Period Adjustments

The City recorded February receipts from derived taxes in 2017 that should have been recognized as revenue at the Government Wide level in 2016. In 2017 the City recorded a prior period correction to revenue in the amount of \$986,907.

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

<u>Fiscal Year</u> <u>Ended</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability Unit</u> <u>Cost</u>	<u>Unfunded Actuarial</u> <u>Accrued Liabilities</u> <u>(UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u>
12/31/2012	\$	- \$	16,191,238 \$	0.0%	\$ 461,567	3500.00%
12/31/2013	\$	- \$	21,632,822 \$	0.0%	\$ 214,934	10100.00%
12/31/2014	\$	- \$	17,942,584 \$	0.0%	\$ 179,183	10000.00%
12/31/2015	\$	- \$	47,180,003 \$	0.0%	\$ 185,375	25500.00%
12/31/2016	\$	- \$	39,652,915 \$	0.0%	-	0.00%
12/31/2017	\$	- \$	39,425,470 \$	0.0%	-	0.00%

REQUIRED SUPPLEMENTARY INFORMATION

City of Bremerton
Schedule of Proportionate Share of the Net Pension Liability
PERS I
As of June 30, 2017
Last 10 Fiscal Years*

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

Notes to Schedule:

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

REQUIRED SUPPLEMENTARY INFORMATION

City of Bremerton
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2017
Last 10 Fiscal Years*

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

Notes to Schedule:

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

REQUIRED SUPPLEMENTARY INFORMATION

City of Bremerton
Schedule of Proportionate Share of the Net Pension Liability
PSERS
As of June 30, 2017
Last 10 Fiscal Years*

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

Notes to Schedule:

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

REQUIRED SUPPLEMENTARY INFORMATION

City of Bremerton
Schedule of Proportionate Share of the Net Pension Liability
LEOFF 1
As of June 30, 2017
Last 10 Fiscal Years*

	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.17592%	0.17424%	0.17571%
Employer's proportionate share of the net pension liability (asset)	\$ (2,669,093)	\$ (1,795,160)	\$ (2,117,718)
Employer's covered employee payroll	99,976	126,465	122,729
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	(2669.74%)	(1419.49%)	(1725.52%)
Plan fiduciary net position as a percentage of the total pension liability	135.96%	123.74%	127.36%

Notes to Schedule:

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

REQUIRED SUPPLEMENTARY INFORMATION

City of Bremerton
Schedule of Proportionate Share of the Net Pension Liability
LEOFF 2
As of June 30, 2017
Last 10 Fiscal Years*

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

Notes to Schedule:

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

REQUIRED SUPPLEMENTARY INFORMATION

City of Bremerton
Schedule of Employer Contributions
PERS 1
As of December 31, 2017
Last 10 Fiscal Years*

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

Notes to Schedule:

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

REQUIRED SUPPLEMENTARY INFORMATION

City of Bremerton
Schedule of Employer Contributions
PERS 2/3
As of December 31, 2017
Last 10 Fiscal Years*

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

Notes to Schedule:

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

REQUIRED SUPPLEMENTARY INFORMATION

City of Bremerton
Schedule of Employer Contributions
PSERS
As of December 31, 2017
Last 10 Fiscal Years*

	2017	2016	2015
Contractually required contributions	\$ 12,572	\$ 10,081	\$ 8,916
Contributions in relation to the contractually required contributions	\$ 12,572	\$ 10,081	\$ 8,196
Contribution deficiency (excess)	0	0	0
Employer's covered employee payroll	189,011	152,968	126,758
Contributions as a percentage of covered employee payroll	6.65%	6.59%	6.47%

Notes to Schedule:

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

REQUIRED SUPPLEMENTARY INFORMATION

City of Bremerton
Schedule of Employer Contributions
LEOFF 2
As of December 31, 2017
Last 10 Fiscal Years*

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

Notes to Schedule:

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

City of Bremerton
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

Federal Agency (Pass Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass Through Awards	From Direct Awards	Total		
Community Development Block Grant								
U.S Dept of HUD	Community Development Block Grant	14.218	B-16-MC-53-0011	-	154,921	154,921	154,921.00	1, 2
U.S Dept of HUD	Community Development Block Grant	14.218	B-17-MC-53-0011	-	312,006	312,006	312,006.00	
U.S Dept of HUD	Community Development Block Grant	14.218	Program Income	-	109,755	109,755	109,755.00	1, 2, 3
Total Community Development Block Grants/Entitlement Cluster				-	576,682	576,682	576,682.00	
U.S. Dept of Justice	Edward Byrne Memorial Justice Assistance Grant	16.738	2015-DJ-BX-0550	-	23,752	23,752	-	1, 2
Highway Planning and Construction Cluster								
Federal Highway Administration (via WA State DOT)	Highway Planning and Construction	20.205	STPUS-6639(001)/LA-8576	31,771	-	31,771	-	1, 2
Federal Highway Administration (via WA State DOT)	Highway Planning and Construction	20.205	STPUS-9918(015)/LA-8596	154,015	-	154,015	-	1, 2
Federal Highway Administration (via WA State DOT)	Highway Planning and Construction	20.205	HSIP-000S(433)/LA-8783	269,579	-	269,579	-	1, 2
Federal Highway Administration (via WA State DOT)	Highway Planning and Construction	20.205	SRTS-6637(001)/LA-8812	480,133	-	480,133	-	1, 2
Federal Highway Administration (via WA State DOT)	Highway Planning and Construction	20.205	HSIP-000S(459)/LA-9021	149,801	-	149,801	-	1, 2
Total For Highway Planning and Construction Cluster:				1,085,298	-	1,085,298	-	

The accompanying notes are an integral part of this schedule.

City of Bremerton
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

		Expenditures				Passed through to Subrecipients	Note
		From Pass Through Awards	From Direct Awards	Total			
Federal Agency (Pass Through Agency)	Federal Program	CFDA Number	Other Award Number				
Environmental Protection Agency	Brownfields Training, Research, and Technical Assistance	66.814	01139801	-	10,701	10,701	- 1,2
Federal Emergency Management Agency (fema), Department of Homeland Security (via North Kitsap Fire & Rescue)	Assistance to Fire Fighters Grant	97.044	NA	76,635	-	76,635	- 1,2
Total Federal Awards Expended:				1,161,933	611,135	1,773,068	576,682

The accompanying notes are an integral part of this schedule.

City of Bremerton

**Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017**

Note 1 – Basis of Accounting

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

Note 2 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the city's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect Cost Rate

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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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