Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

City of Bremerton
Kitsap County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010490

Issue Date
September 23, 2013

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

September 23, 2013

Council
City of Bremerton
Bremerton, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Federal Summary

City of Bremerton
Kitsap County
January 1, 2012 through December 31, 2012

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

FINANCIAL STATEMENTS

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

Internal Control Over Financial Reporting:

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

- ***Material Weaknesses:*** We identified deficiencies that we consider to be material weaknesses.

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

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

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
11.300	Economic Development Cluster - Grants for Public Works and Economic Development Facilities
15.916	Outdoor Recreation Acquisition, Development, and Planning - Land and Water Conservation Fund Grants
16.710	ARRA - Public Safety Partnership and Community Policing Grants (Recovery Act)
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 OMB Circular A-133, was $300,000.

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

Schedule of Federal Audit Findings and Questioned Costs

City of Bremerton
Kitsap County
January 1, 2012 through December 31, 2012

1. The City did not have sufficient internal controls to ensure compliance with federal Davis-Bacon Act (prevailing wage) requirements for its Investments for Public Works and Economic Development grant for a second year.

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

Description of Condition

The City spent $1,544,528 in federal grant money on the Park Avenue Plaza Phase II project in 2012.

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

During our audit of fiscal year 2011, we found the City was not in compliance with Davis Bacon Act requirements and reported a finding. The City contracted with a management company to oversee the project through July 2012. The management company had not properly obtained and reviewed certified payroll reports, nor did the City have an internal control process to monitor the management company to ensure compliance. The City's contract ended with the management company in July 2012; however, the City did not have internal controls sufficient to ensure someone obtained or reviewed weekly certified payroll reports through at least December 2012.

Cause of Condition

Management did not assign the responsibility to obtain or review certified payroll reports to any employee. In 2012, the City continued to not have an internal control process in place to ensure that weekly certified payroll reports were obtained or reviewed for compliance with Davis-Bacon Act requirements.

Effect of Condition and Questioned Costs

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

Recommendation

We recommend the City identify staff responsible for ensuring compliance with prevailing wage requirements on a weekly basis. We also recommend the City ensure responsible staff is adequately trained and knowledgeable of prevailing wage requirements.

City's Response

The City of Bremerton thanks the State Auditor's Office for bringing this matter to our attention. The City has worked with the Department of Labor and Industries regarding certified payroll for this project and has been informed that L&I has completed its review. Any corrections required have been addressed. The City has assigned responsibility for this function to appropriate internal staff for the remainder of this project, which is expected to be completed during fiscal year 2013. As part of the previous finding, the responsible internal staff member has completed the Awarding Agency Prevailing Wage Workshop during October 2012 presented by the Washington State Department of Labor and Industries and the State Auditor's Office.

Auditor's Remarks

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

Applicable Laws and Regulations

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

> Weekly statement with respect to payment of wages.
>
> (b) Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by this part 3 and part 5 of this chapter during the preceding weekly payroll period. This statement shall be executed by the contractor or subcontractor or by unauthorized officer or employee of the contractor or subcontractor who supervises the payment of wages, and shall be on form WH348, "Statement of Compliance", or on an identical form on the back of WH347, "Payroll (For Contractors Optional Use)" or on any form with identical wording.
>
> (c) The requirements of this section shall not apply to any contract of $2,000 or less.

Schedule of Federal Audit Findings and Questioned Costs

City of Bremerton
Kitsap County
January 1, 2012 through December 31, 2012

2. The Community Development Block Grant Program Administrator did not adequately monitor or collect on deferred loans.

CFDA Number and Title:	14.218 Community Development Block Grant
Federal Grantor Name:	U.S. Department of Housing and Urban Development
Federal Award/Contract Number:	B-11-MC-53-0011
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$0

Description of Condition

The City held approximately $574,030 in deferred loan receivables at December 31, 2012. Of this amount, approximately $269,145 represents 16 loans that were originally funded with federal Community Development Block Grant (CDBG) funds. CDBG loans were given to local community members for down payment assistance or necessary repairs to their homes. The loans were to be repaid to the City at the maturity date (typically 15 to 20 years, with some loans having no maturity date) or immediately upon sale, transfer, change in use (i.e. owner began renting the home), or death of the borrower.

The City's CDBG Program Administrator maintains a spreadsheet that lists all of the deferred loans managed by the City. It identifies the original funding source, if known, current balance, terms of the loan, and notes regarding the last time it was reviewed for eligibility of deferment. The last complete review of the loans by the CDBG Program Administrator was in 2009, and resulted in several loans that required follow-up to verify eligibility for deferment or pursuit of collection by the City. It does not appear any follow-up review or action was completed.

We reviewed 7 of the 16 CDBG loans totaling approximately $90,380 and noted issues with four loans. Specifically, it appeared the Program Administrator should have collected approximately $23,120 for the following three loans that no longer qualified to be deferred:

- Two outstanding loans to a borrower who passed away in 1997.
- One loan involving a home that was sold in 2008.

The City was still reporting a CDBG loan for $17,610 as outstanding at the end of 2012, even though it was paid in full in 2002.

In addition, similar issues were noted with other deferred loans that appeared to originate from non-federal funds. These issues were reported in a related letter to management referenced in our 2012 Accountability Audit Report.

Cause of Condition

The Community Development Block Grant Program Administrator did not:

- Review for changes in loan status in a timely manner.
- Collect on loans that no longer were eligible to be deferred under the terms of the loan.
- Maintain an accurate list of outstanding loans to report on the annual financial statements.

Effect of Condition and Questioned Costs

- The City is not in compliance with Community Development Block Grant program income requirements.
- The City did not collect at least $23,120 due because the loans were no longer eligible for deferment.
- The City's financial statements balance related to the CDBG deferred loans was over reported by at least $17,610.

Recommendation

We recommend that the City review each of its deferred loans under this program and:

- Determine if the loan is still eligible for deferment,
- Collect on loans that are not eligible for deferment, and
- Ensure the loan amount reported on the financial statements is accurate.

City's Response

Due to staffing cuts, the Block Grant Program Administrator did not follow its loan portfolio management procedures in a timely manner in order verify each loan's continued eligibility for deferment, and to accurately quantify the value of the outstanding loans.

To remedy, the Block Grant Administrator will do the following:

1. *Review and update the loan portfolio management procedures to ensure that each loan is reviewed once per year, at a minimum.*

2. *Shift support staff responsibilities to include carrying out this work, with the guidance of the Block Grant Administrator.*

3. *Address loans that are identified as no longer eligible for deferral, utilizing legal staff expertise if necessary:*

   - *Continue deferral (if conditions can be met). If not;*
   - *Seek repayment on the loans*
   - *Write-off of a loan for which we cannot recover proceeds.*

4. *Document how each loan has been handled and close loans in a timely manner Maintain Loan Portfolio inventory to reflect all new loans, payoffs, to accurately reflect on city financial statements.*

Auditor's Remarks

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

Applicable Laws and Regulations

U.S. Office of Management and Budget 2012 Circular A-133 Compliance Supplement, Part 4, *Department of Housing and Urban Development,* CFDA 14.218 Community Development Block Grant, Part J, *Program Income*, states in part:

> 2. Making loans and collecting the payments on those loans can be a significant source of program income for grantees. The use of income derived from loan payments is subject to program requirements. This carries with it the responsibility for grantees to have a loan origination and servicing system in effect which assures that loans are properly authorized, receivables are properly established, earned income is properly recorded and used, and write-offs of uncollectible amounts are properly authorized (24 CFR sections 570.500, 570.501, 570.504, 570.506, and 570.513).

Title 24, Code of Federal Regulations, Chapter 570, states in part:

> § 570.501 Responsibility for grant administration.
>
> (a) One or more public agencies, including existing local public agencies, may be designated by the chief executive officer of the recipient to undertake activities assisted by this part. A public agency so designated shall be subject to the same requirements as are applicable to subrecipients.
>
> (b) The recipient is responsible for ensuring that CDBG funds are used in accordance with all program requirements. The use of designated public agencies, subrecipients, or contractors does not relieve the recipient of this responsibility. The recipient is also responsible for determining the adequacy of performance under subrecipient agreements and procurement contracts, and for taking appropriate action when performance problems arise, such as the actions described in § 570.910.

§ 570.505 Use of real property.

The standards described in this section apply to real property within the recipient's control which was acquired or improved in whole or in part using CDBG funds in excess of $25,000. These standards shall apply from the date CDBG funds are first spent for the property until five years after closeout of an entitlement recipient's participation in the entitlement CDBG program or, with respect to other recipients, until five years after the closeout of the grant from which the assistance to the property was provided.

(a) A recipient may not change the use or planned use of any such property (including the beneficiaries of such use) from that for which the acquisition or improvement was made unless the recipient provides affected citizens with reasonable notice of, and opportunity to comment on, any proposed change, and either:

(1) The new use of such property qualifies as meeting one of the national objectives in § 570.208 (formerly § 570.901) and is not a building for the general conduct of government; or

(2) The requirements in paragraph (b) of this section are met.

(b) If the recipient determines, after consultation with affected citizens, that it is appropriate to change the use of the property to a use which does not qualify under paragraph (a)(1) of this section, it may retain or dispose of the property for the changed use if the recipient's CDBG program is reimbursed in the amount of the current fair market value of the property, less any portion of the value attributable to expenditures of non-CDBG funds for acquisition of, and improvements to, the property.

(c) If the change of use occurs after closeout, the provisions governing income from the disposition of the real property in § 570.504(b)(4) or (5), as applicable, shall apply to the use of funds reimbursed.

(d) Following the reimbursement of the CDBG program in accordance with paragraph (b) of this section, the property no longer will be subject to any CDBG requirements.

§ 570.506 Records to be maintained.

Each recipient shall establish and maintain sufficient records to enable the Secretary to determine whether the recipient has met the requirements of this part. At a minimum, the following records are needed:

(a) Records providing a full description of each activity assisted (or being assisted) with CDBG funds, including its location (if the activity has a geographical locus), the amount of CDBG funds budgeted, obligated and expended for the activity, and the provision in subpart C under which it is eligible.

(b) Records demonstrating that each activity undertaken meets one of the criteria set forth in § 570.208.

Schedule of Prior Federal Audit Findings

City of Bremerton
Kitsap County
January 1, 2012 through December 31, 2012

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

Audit Period: 01/01/2011-12/31/2011	**Report Reference No:** 1008451	**Finding Reference No:** 1	**CFDA Number(s):** 11.300
Federal Program Name and Granting Agency: Investment in Public Works and Economic Development, U.S. Department of Commerce		**Pass-Through Agency Name:** NA	
Finding Caption: The City did not comply with federal Davis-Bacon (prevailing wage) requirements for its Investment in Public Works and Economic Development grant.			
Background: The City spent $650,972 in federal grant money on the Park Plaza parking garage project in 2011. For federally funded construction projects that exceed $2,000, the Davis-Bacon Act requires contractors to pay federally prescribed prevailing wages to laborers. Grant recipients must include in construction contracts a provision stating the contractor and subcontractors must comply with the Davis-Bacon Act. The provision requires the contractor and subcontractors to submit to the grantee a weekly copy of payroll and a statement of compliance (certified payrolls). During our audit, we found the City was not obtaining certified weekly payrolls. The City had a contract with a management company to oversee the project. The company obtained certified payrolls when reimbursement requests were completed, rather than weekly, and did not review them to ensure prevailing wage rates were paid. The City did not have an internal process to monitor the management company to ensure it collected certified payroll information.			
Status of Corrective Action: (check one) ☐ Fully Corrected ☐ Partially Corrected ☒ No Corrective Action Taken ☐ Finding is considered no longer valid			
Corrective Action Taken: The following was the City's response as to its corrective action taken to address the prior year finding. *The City is no longer working with the management company that was responsible for this oversight. In addition, the City has provided training to our City Clerk and managing engineers with regards to Davis Bacon and prevailing wage requirements for public contracts. The City will insure that future management companies will receive and verify weekly certified payrolls as part of its internal processes.*			

<table>
<tr><td>Audit Period:
01/01/2011-
12/31/2011</td><td>Report Reference No: 1008451</td><td>Finding Reference No: 2</td><td>CFDA Number(s):
20.205</td></tr>
<tr><td colspan="2">Federal Program Name and Granting Agency:
Highway Planning and Construction, U.S. Department of Transportation</td><td colspan="2">Pass-Through Agency Name:
Department of Transportation</td></tr>
<tr><td colspan="4">Finding Caption:
The City's Public Works Department did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.</td></tr>
<tr><td colspan="4">Background:
In 2011, the City spent approximately $500,000 in federal highway money for design and engineering for three road improvement projects. The City entered into contracts with five companies to provide design and engineering consulting.

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

During our audit, we found the City did not confirm that the five vendors were not suspended or debarred from participating in federally funded grant projects.</td></tr>
<tr><td colspan="4">Status of Corrective Action: (check one)
☒ Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid</td></tr>
<tr><td colspan="4">Corrective Action Taken:
The following was the City's response as to its corrective action taken to address the prior year finding:

Engineering management coordinated with the City Clerk, and attended a webinar hosted by Labor and Industries and the State Auditor's Office on October 10, 2012 titled "Awarding Agency Training," which covered suspension and debarment certifications. Further, staff was made aware of the System for Award Management website (https://www.sam.gov/portal/public/SAM/), and are using that resource for future checks.</td></tr>
</table>

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

City of Bremerton
Kitsap County
January 1, 2012 through December 31, 2012

Council
City of Bremerton
Bremerton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bremerton, Kitsap County, Washington, as of and for the year ended December 31, 2012, 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 9, 2013. During the year ended December 31, 2012, the City implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated September 9, 2013.

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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 9, 2013

Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

City of Bremerton
Kitsap County
January 1, 2012 through December 31, 2012

Council
City of Bremerton
Bremerton, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Bremerton, Kitsap County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

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

City's Response to Findings

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

City's Response to Findings

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

PURPOSE OF THIS REPORT

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

TROY KELLEY
STATE AUDITOR

September 9, 2013

Independent Auditor's Report on Financial Statements

City of Bremerton
Kitsap County
January 1, 2012 through December 31, 2012

Council
City of Bremerton
Bremerton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bremerton, Kitsap County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 20.

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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 19 to the financial statements, in 2012, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 21 through 33 and information on postemployment benefits other than pensions on page 77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2013 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.

TROY KELLEY
STATE AUDITOR

September 9, 2013

Financial Section

City of Bremerton
Kitsap County
January 1, 2012 through December 31, 2012

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

Management's Discussion and Analysis

The City of Bremerton (City) presents this Management Discussion and Analysis (MD&A) in order to provide a narrative overview of the City's financial activities, focus on significant financial issues, and highlight significant changes in the City's financial position for the fiscal year ended December 31, 2012. 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 2012, the assets of the City exceeded its liabilities by $256.8 million. The net investment in capital assets accounts for over 84.8 percent of this amount ($217.8 million). Net assets restricted primarily for construction projects, debt service, Community Development Block Grant (CDBG) programs, tourism promotion, worker's compensation liability and public safety account for another 2.3 percent of this amount ($5.8 million). The remaining net assets of $33.2 million may be used to meet the City's ongoing obligations to citizens and creditors.

- The City's net assets increased by $16.5 million (6.87%) during the fiscal year. The governmental net assets increased by $7.8 million (9.3%) from the amount reported in 2011. Business-type net assets increased by $8.7 million (5.6%). The Business-type increase included net income before contributions and transfers for the Water utility of $1,046,064, Wastewater utility of $3,569,783, other non-major proprietary funds of $133,537 and Golf Course $(161,302).

- As of December 31, 2012, the City's governmental funds reported a combined fund balance of $9.3 million, an increase of 0.8% from the prior year end. The fund balance of the General Fund increased by $1,195,224 while the remaining non-major governmental funds had a fund balance decrease of $1,117,740. The overall increase of $77,485 is primarily attributable to decreased expenditures for personnel and supplies and services in the General fund offset by an increase in grant funded capital projects in other governmental funds. $2.8 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 $6.5 million of unrestricted fund balance $2.4 million has been committed or assigned for specific purposes while $4.0 million is unassigned and available to the City for future appropriation.

- At the end of 2012, the unassigned fund balance of the General Fund was $4.0 million or approximately eleven percent of total General Fund expenditures of $34.5 million. The General Fund's unassigned fund balance increased by $744,241 from the prior year's amount of $3.3 million, a 22.7 percent increase. This increase over 2011 is primarily due to reduced expenditures from 2011. The 2011 expenditures included a one-time settlement of $1,150,000 under a contingent loan agreement with Kitsap County.

- The City's total outstanding debt decreased by $10.5 million (13.9%) during the current fiscal year to $65.1 million. General obligation debt decreased by $1.7 million and revenue debt decreased by $8.8 million. Debt per capita decreased from $1,949 to $1,642, a 15.75% decrease.

- The City's net investment in Capital Assets increased $6.8 million (2.5%) in 2012. Total Capital assets from governmental activities increased $5.1 million or 4.8%. Total Capital assets from business type activities increased $1.7 million or 1.0%. These increases are primarily due to Park Avenue Plaza parking facility ($2.6 million) and crosstown pipeline ($2.5 million) projects. In addition, roads, traffic signals and lighting in the Bay Vista development, valued at $2.6 million, were conveyed to the City by the developers of the plat.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

The ***statement of net position*** presents information on all of the City's assets and liabilities, 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-four (24) individual governmental funds in 2012. The City's General fund is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are combined into a single column labeled "Other Governmental Funds". Information for each of the non-major governmental funds is provided in the combining statements in this report.

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

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

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

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

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

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

The City has one type of fiduciary fund – an agency fund. *Agency funds* are custodial in nature and do not include revenues and expenses as they do not measure the results of operations.

Government-wide Financial Analysis

Statement of net position

The statement of net position can serve as a useful indicator of the City's financial position. The City's net assets at December 31, 2012 total $256.8 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		
	2012	2011	Difference	2012	2011	Difference	2012	2011	Difference
Current Assets	$ 17,450	$ 17,065	$ 385	$ 25,203	$ 27,347	$ (2,144)	$ 42,653	$ 44,412	$ (1,759)
Restricted Assets	472	100	372	1,739	1,690	49	2,211	1,790	421
Capital Assets	110,243	105,193	5050	171,700	169,962	1,738	281,943	275,155	6,788
Other Noncurrent Assets	1,590	1,550	40	1,021	1,103	(82)	2,611	2,653	(42)
Total assets	129,755	123,908	5,847	199,663	200,102	(439)	329,418	324,010	5,408
Current Liabilities	13,508	4,911	8,597	1,462	4,901	(3,439)	14,970	9,812	5,158
Payable from Restricted Assets	-	-	-	-	163	(163)	-	163	(163)
Noncurrent Liabilities	24,955	35,508	(10,553)	32,670	38,181	(5,511)	57,625	73,689	(16,064)
Total liabilities	38,463	40,419	(1,956)	34,132	43,245	(9,113)	72,595	83,664	(11,069)
Net position									
Net investment in capital assets	78,295	71,533	6,762	139,494	128,931	10,563	217,789	200,464	17,325
Restricted	4,201	6,008	(1,807)	1,617	1,527	90	5,818	7,535	(1,717)
Unrestricted	8,796	5,948	2,848	24,420	26,399	(1,979)	33,216	32,347	869
Total net position	$ 91,292	$ 83,489	$ 7,803	$ 165,531	$ 156,857	$ 8,674	$ 256,823	$ 240,346	$ 16,477

The largest component of the City's net assets, $217.8 million (or 84.8%), is its investment in capital assets less any related outstanding debt issued to acquire those assets. These capital assets, such as utility plant, streets, trails, parks, fire and police vehicles, are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

Restricted net assets consist of amounts legally or otherwise externally restricted for debt service and other programs. Of the $4.2 million of governmental restricted assets, $1.5 million or 35.7% is restricted for the construction of capital assets. $2.7 million of restricted net assets are special revenues restricted primarily for use in the Community Development Block Grant program (26.2%), for public safety services (19.9%), tourism promotion (3.1%), workers compensation liability (2.4%) and Parking system operation and debt service (12.7%). $1.6 million of business-type restricted assets are reserves required for debt service payments and asset replacement. A total of $24.4 million represents the unrestricted net assets of the City's business-type activities and may only be spent on golf course operations, water, wastewater and other utility activities. Maintenance of utility delivery systems (water lines, pump station, wells), storm drain flushing, water meter reading, and capital construction projects, such as well rehabilitation, are examples of utility activities. Other functions of the City may access the remaining net assets of $8.8 million to meet ongoing obligations to citizens and creditors. Examples of other City obligations which these net assets may be used for are: public safety employee salaries, parks maintenance (mowing, fence repair, etc), and ongoing street maintenance (street sweeping, restriping, resurfacing, etc).

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

Changes in net 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 2012 with net position increasing approximately $16.7 million before prior period adjustments. Net assets of governmental activities increased by $7.8 million and the net assets of business-type activities increased by $8.9 million.

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

Changes in Net Position

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2012	2011	Difference	2012	2011	Difference	2012	2011	Difference
Revenues									
Program revenues									
Charges for services	$ 8,148	$ 8,134	$ 14	$ 26,808	$ 26,471	$ 337	$ 34,956	$ 34,605	$ 351
Operating grants and contributions	678	1,863	(1,185)	3	259	(256)	681	2,122	(1,441)
Capital grants and contributions	6,847	1,754	5,093	9,254	2,580	6,674	16,101	4,334	11,767
General revenues				-					
Property taxes	8,579	8,547	32	-	-	-	8,579	8,547	32
Sales taxes	7,296	7,051	245	16	17	(1)	7,312	7,068	244
Business taxes	3,257	3,175	82	1	-	1	3,258	3,175	83
Utility taxes	4,407	4,512	(105)	-	-	-	4,407	4,512	(105)
Other taxes	2,679	2,385	294	-	-	-	2,679	2,385	294
Other general revenues	488	658	(170)	683	613	70	1,171	1,271	(100)
Total revenues	$ 42,379	$ 38,079	$ 4,300	$ 36,765	$ 29,940	$ 6,825	$ 79,144	$ 68,019	$ 11,125
Expenses									
Governmental activities									
General government	2,336	4,585	(2,249)	-	-	-	2,336	4,585	(2,249)
Public safety	23,177	23,719	(542)	-	-	-	23,177	23,719	(542)
Utilities and environment	220	219	1	-	-	-	220	219	1
Transportation	4,207	4,235	(28)	-	-	-	4,207	4,235	(28)
Economic Enivironment	1,865	2,232	(367)	-	-	-	1,865	2,232	(367)
Culture and recreation	6,061	5,976	85	-	-	-	6,061	5,976	85
Interest on long-term debt	1,172	1,512	(340)	-	-	-	1,172	1,512	(340)
Business-type activities				-					
Water	-	-	-	8,923	8,868	55	8,923	8,868	55
Wastewater	-	-	-	9,944	9,822	122	9,944	9,822	122
Golf course	-	-	-	2,271	2,136	135	2,271	2,136	135
Other proprietary funds	-	-	-	2,282	1,831	451	2,282	1,831	451
Total expenses	$ 39,038	$ 42,478	$ (3,440)	$ 23,420	$ 22,657	$ 763	$ 62,458	$ 65,135	$ (2,677)
Excess of revenues over expenses	3,341	(4,399)	7,740	13,345	7,283	6,062	16,686	2,884	13,802
Transfers	4,462	3,738	724	(4,462)	(3,738)	(724)	-	-	-
Change in net position	7,803	(661)	8,464	8,883	3,545	5,338	16,686	2,884	13,802
Net position - beginning	83,489	84,616	(1,127)	156,857	153,438	3,419	240,346	238,054	2,292
Prior period adjustment	-	(466)	466	(209)	(126)	(83)	(209)	(592)	383
Net position - ending	$ 91,292	$ 83,489	$ 7,803	$ 165,531	$ 156,857	$ 8,674	$ 256,823	$ 240,346	$ 16,477

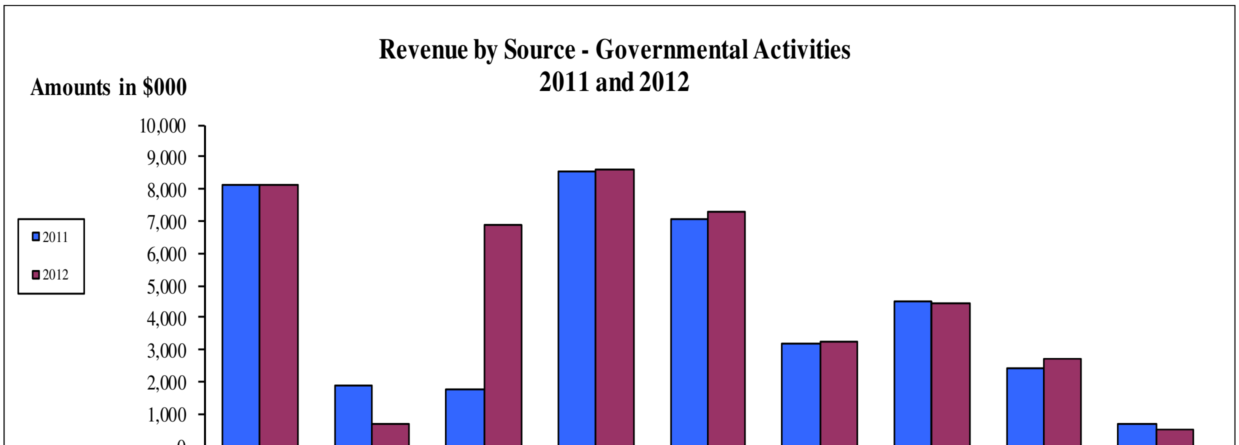
Governmental activities accounted for an increase of $7.8 million of the total change in net assets of $16.7 million. Significant elements of the increase are as follows:

- Expenditures decreased by 8.1% in 2012 compared to 2011. Reductions occurred in many functional areas, as a significant effort was made to match declining resources. The most notable exception was expenditures for Culture and Recreation. Expenditures for Culture and Recreation increased 14% in 2012 as a result of increased operating costs at the Kitsap Conference Center. Expenditure decreases are primarily due to the fact that 2011 expenditures included a $1,150,000 settlement under a contingent loan agreement with Kitsap County as well as positive expenditure budget variances in expenditures associated with Community Development, Facilities, Law Enforcement, Engineering, and Police and Fire Pension departments.

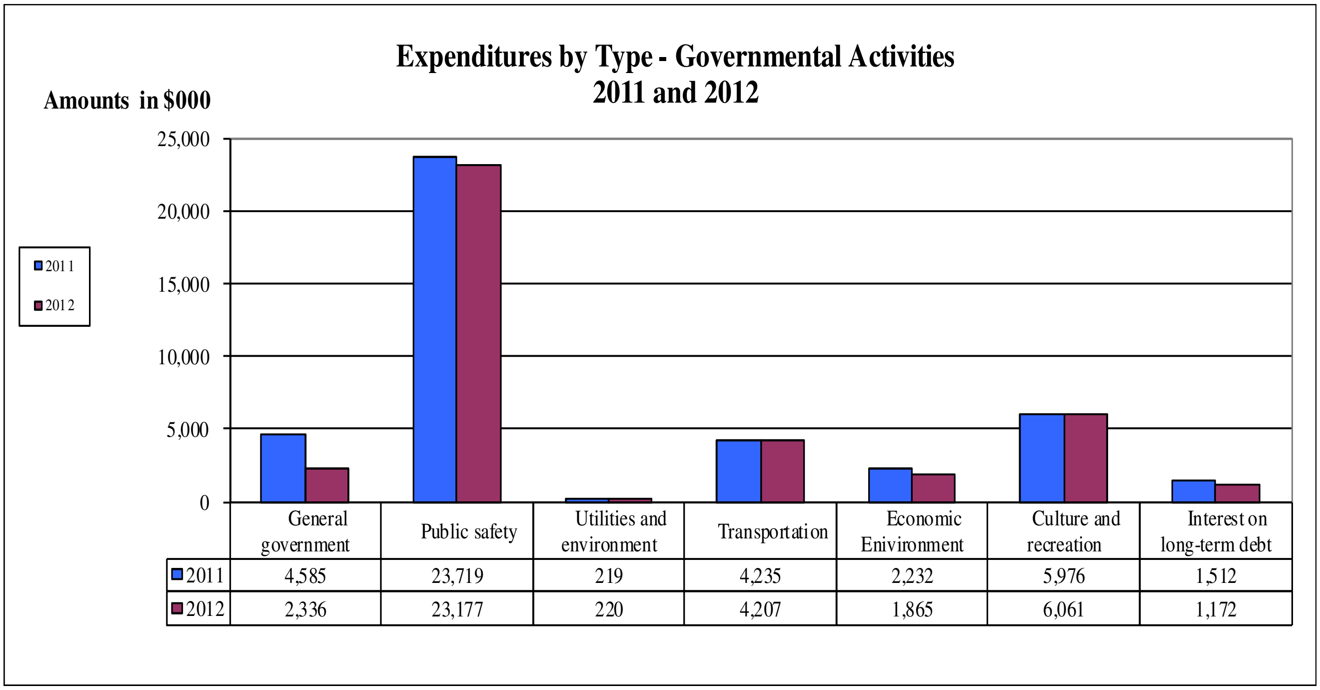
- Total revenue from governmental activities in 2012 increased by $4.3 million from 2011. Program revenues accounted for the largest portion of this increase, $3.9 million or 91%. Within program revenue, Operating Grants and Contributions decreased $1.2 million or 63%. This was offset by an increase in Capital Grants and Contributions of $5.1 million, or 283%. The increase in Capital Grants and Contributions were from grants for construction of the Park Plaza parking facility as well as several low impact street development projects. The remaining increase in revenue for governmental activities is attributable to tax revenues. Tax revenues that support ongoing operations increased by $.5 million in 2012 from the 2011 level. Sales taxes increased $0.2

million or 3.5%. Utility taxes decreased by $0.1 million or 0.02%. Property, business, and other taxes increased $0.4 million or 2.9% with the largest increase being other general taxes ($.3 million). Other general revenues which include interest earnings, gains on disposal of assets, and miscellaneous income, decreased by $0.17 million in 2012 from the 2011 level, or 25.8%. The largest component of this decrease ($.5 million) was related to the sale of property and other assets. In 2011 a retail pad at Park Avenue Plaza was sold for $500,000 for the construction of a multiscreen cinema. This decrease was offset by an increase of $.3 million for the return, in 2012, of the city's portion of bond reserves held by Housing Kitsap for the debt issued to construct the Norm Dicks Government Center. These reserves were used to partially fund the refunding escrow account.

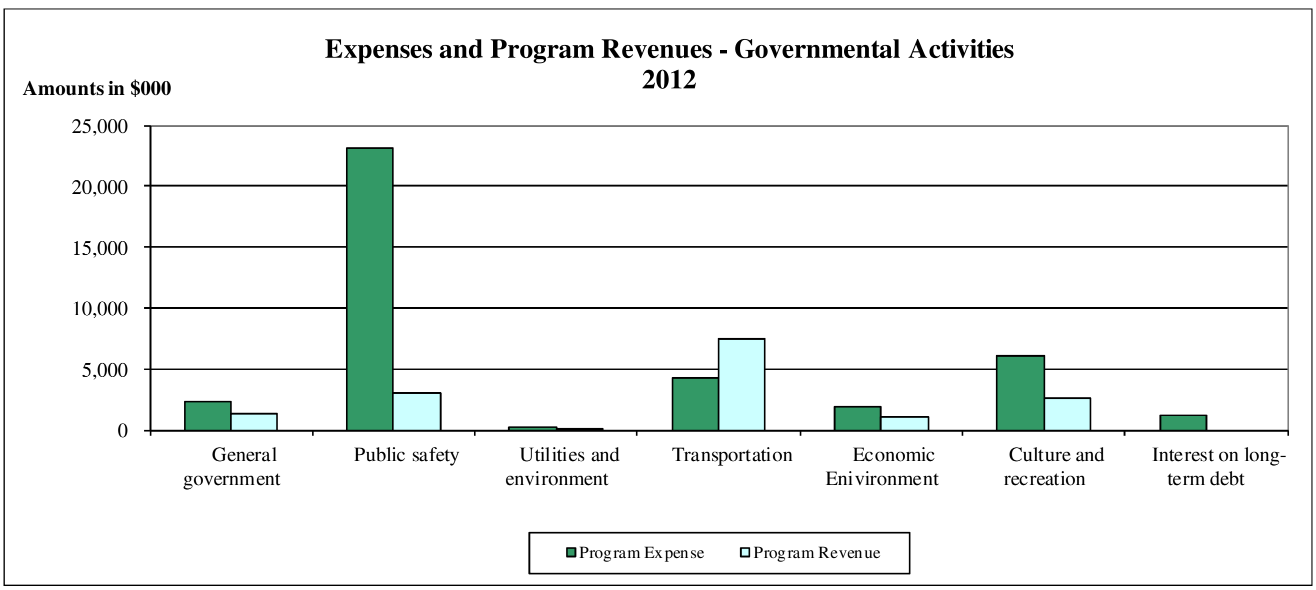
- Transfers continued to play a significant role in the increase to net assets in 2012. Transfers from Business-type activities increased $724,000 in 2012. Payments in lieu of tax levied on the city's own utilities increased by $766,628 to $4,462,373 (20.7%).



	Charges for services	Operating grants and contributions	Capital grants and contributions	Property taxes	Sales taxes	Business taxes	Utility taxes	Other taxes	Other general revenues
2011	8,134	1,863	1,754	8,547	7,051	3,175	4,512	2,385	658
2012	8,148	678	6,847	8,579	7,296	3,257	4,407	2,679	488



	General government	Public safety	Utilities and environment	Transportation	Economic Enivironment	Culture and recreation	Interest on long-term debt
2011	4,585	23,719	219	4,235	2,232	5,976	1,512
2012	2,336	23,177	220	4,207	1,865	6,061	1,172



Business-type activities increased City's net assets by $8.9 million, before prior period adjustments, accounting for approximately fifty three percent of the total growth in the government's net assets.

- A key element of this increase is in capital grants and contributions which continued to be a significant revenue source in 2012. Revenue of $9.3 million from this source increased $6.7 million or 258.6% in 2012 from 2011 levels as a result of forgiveness of a $6.2 million of Public Trust Fund Loan at completion of the construction of the UV Treatment Plant. Of the $9.3 million received from this contribution in 2012, 16%

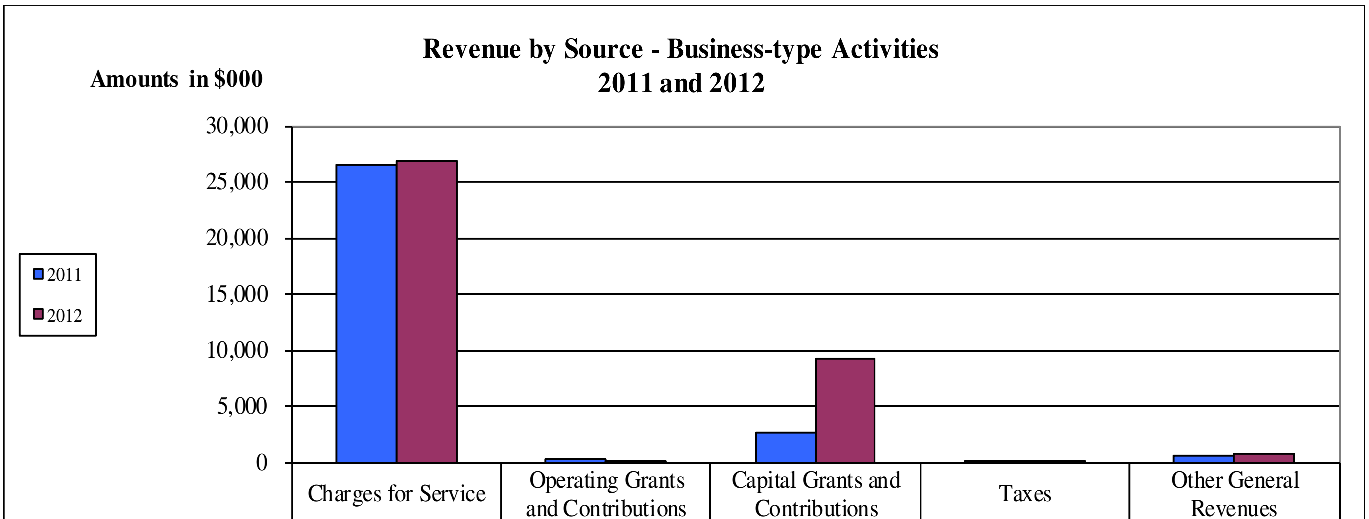
was from developer contributions. The largest contribution, $1,026,707, was from Bremerton Housing Authority for infrastructure at the Bay Vista development.

- Charges for services increased $.3 million in 2012. This increase was largely as a result of a 6% utility Water rate increase on billings effective January 1, 2012. There was no utility rate increases to Sewer and Stormwater. Golf course revenues decreased $19,135 (0.9%) in 2012.

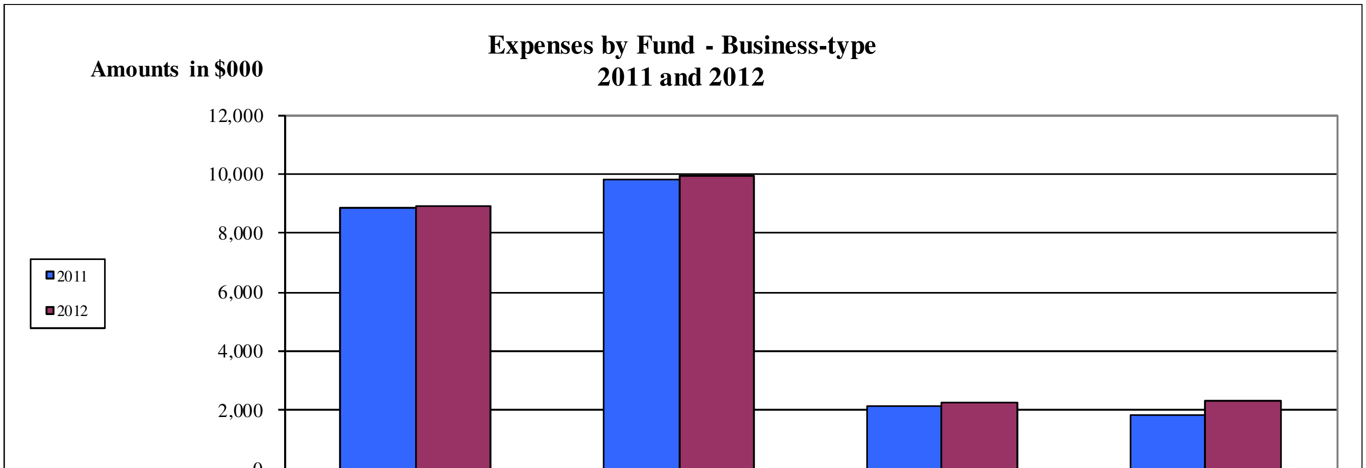
- Expenditures for Business Type activities increased $.76 million in 2012 over 2011. This increase was mainly attributable to general cost increases for fuel, utilities and supplies.

- Transfers to Governmental Activities increased by $724,000 in 2012. Payments in lieu of tax levied on the city's own utilities increased by $766,628 to $4,462,373 (20.7%).

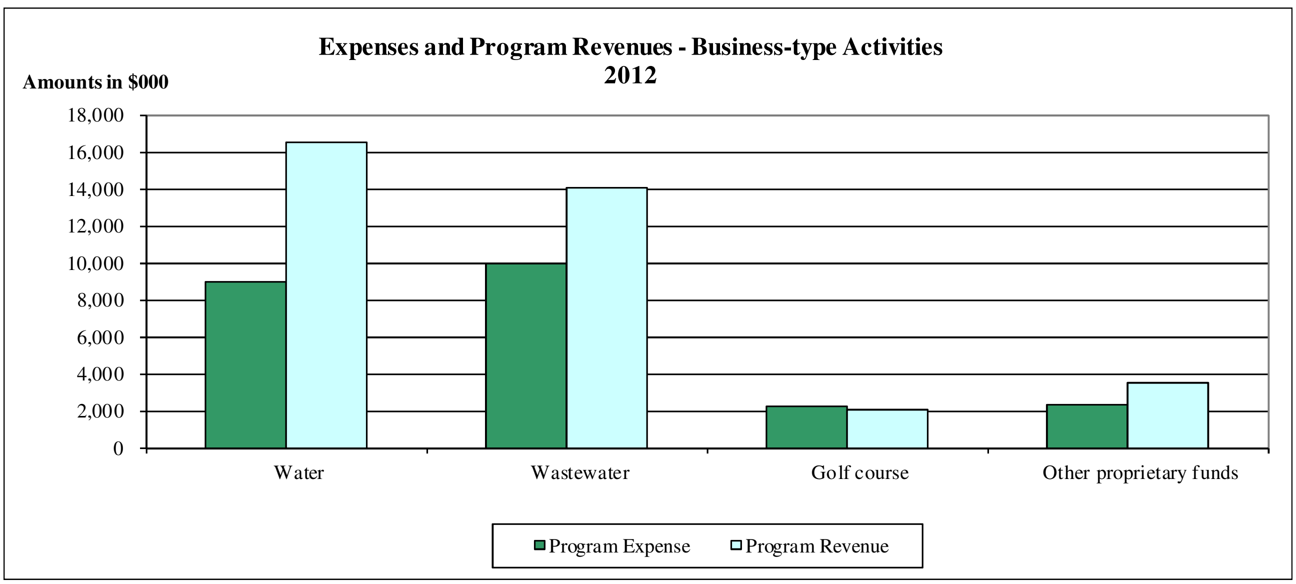
- Business-Type activities were reduced $209,000 in 2012 by a prior period adjustment for capitalized costs incurred in prior years on projects that are no longer included in the capital improvement plan.

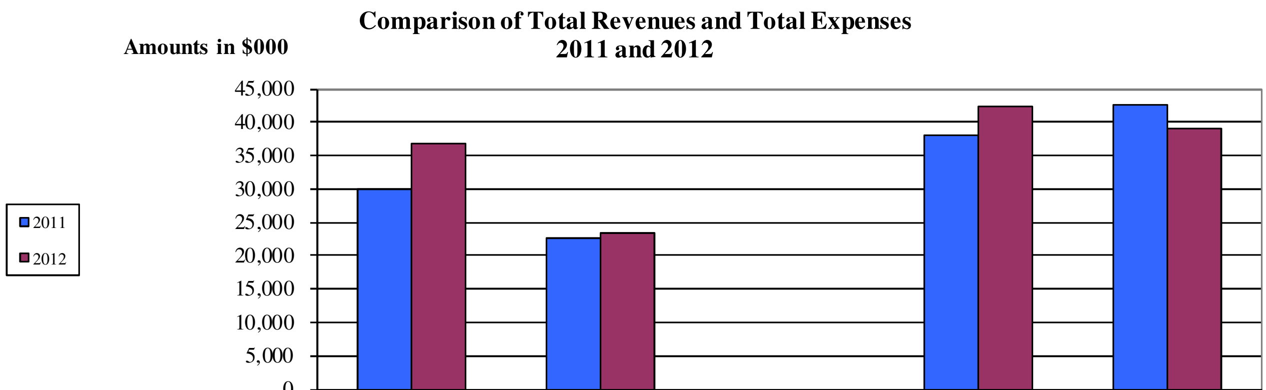


	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Other General Revenues
2011	26,471	259	2,580	17	613
2012	26,808	3	9,254	17	683



	Water	Wastewater	Golf course	Other proprietary funds
2011	8,868	9,822	2,136	1,831
2012	8,923	9,944	2,271	2,282





	Business-Type Revenue	Business-Type Expenses		Governmental Revenue	Governmental Expenses
2011	29,940	22,657		38,079	42,478
2012	36,765	23,420		42,379	39,038

Financial Analysis of the City's Funds

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

Governmental funds

The General Fund is the primary operating fund of the City through which all receipts and payments of ordinary City operations are processed, unless they are required to be accounted for in another fund. Taxes are the major revenue source. At the end of 2012, the fund balance of the General Fund was $4.6 million. As a measure of the fund's liquidity, the 2012 ending fund balance is 13.3% of the fund's 2012 expenditures, an increase of 3.6% over 2011's 9.7%.

The General Fund balance increased in 2012 by $1.2 million. Revenues increased from $30.8 million in 2011 to $32.0 million in 2012. Expenditures decreased from $35.0 million to $34.5 million during the same period. Expenditures exceeded revenues in the General Fund by $2.5 million in 2012 but were offset by net transfers and other financing sources of $3.7 million.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Other than accomplishing the programs identified in the 2012 capital improvement program there were no significant transactions pertaining to the proprietary funds.

General Fund Budget Variations

The General Fund collected revenues at 98.9% of the amended amount budgeted or $.41 million less than budgeted. Expenditures for 2012 were 93.9% of the amended budget resulting in actual expenditures being $2.2 million less than the budgeted amount. The negative revenue budget variance is substantially attributable to a decrease in anticipated charges for services and payments in lieu of taxes. The positive expenditure budget variance is largely attributable to personnel cost savings from attrition and lower supplies and services expenditures than anticipated in the Community Development, Law Enforcement, Engineering and Police & Fire Pension departments.

The General Fund budget was balanced in 2012. The original budget provided for a decrease to the fund balance of $8,259. The budget was amended two times during 2012. The final amended budget provided for a decrease to fund balance of $585,299. At the conclusion of 2012, the General Fund increased fund balance by $1.2 million.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2012, amounts to $281.9 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, construction in progress, utility transmission/distribution systems, and roads.

The major capital asset additions for governmental activities during 2012 was the construction of Park Plaza Garage and the addition of roads, traffic signals and lighting in the Bay Vista development, conveyed to the City by the developers of the plat.

The major capital assets changes for business-type activities included the construction of wastewater and water capital improvement projects identified within the City's 2012 capital improvement plan.

Capital Assets (net of depreciation)

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2012	2011	Difference	2012	2011	Difference	2012	2011	Difference
Land	$ 17,434	$ 17,406	$ 28	$ 9,107	$ 8,602	$ 505	$ 26,541	$ 26,008	$ 533
Buildings	46,036	47,175	(1,139)	34,557	32,530	2,027	80,593	79,705	888
Improvements/Infrastructure	26,619	25,616	1,003	92,794	91,265	1,529	119,413	116,881	2,532
Machinery and Equipment	2,987	3,344	(357)	30,948	28,857	2,091	33,935	32,201	1,734
Construction in Progress	17,167	11,651	5,516	4,294	8,708	(4,414)	21,461	20,359	1,102
TOTAL	$ 110,243	$ 105,192	$ 5,051	$ 171,700	$ 169,962	$ 1,738	$ 281,943	$ 275,154	$ 6,789

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

Long-term debt

For governmental activities in 2012, the City refunded its 2003 LTGO bond obligation associated with the Norm Dicks Government Center (City hall), resulting in an estimated total debt savings of $1.689 million over the life of the refunded bonds. There was no additional debt issues associated with governmental activities during 2012. New debt for business-type activities in 2012 consisted of $503,004 of intergovernmental loans to fund Water/Wastewater capital improvement projects identified within the utilities' capital improvement plan. The long-term debt principal paid off in 2012 totaled $16,207,285.

Outstanding Debt - General Obligation and Revenue Bonds

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2012	2011	Difference	2012	2011	Difference	2012	2011	Difference
General Obligation Bonds	$ 32,675	$ 34,300	$ (1,625)	$ 5,058	$ 5,163	$ (105)	$ 37,733	$ 39,463	$ (1,730)
General Obligation Notes	$ 35	$ 48	(13)	$ -	$ -	-	35	48	$ (13)
Revenue Bonds	-	-	-	3,575	3,925	(350)	3,575	3,925	$ (350)
Revenue Loans	-	-	-	23,777	32,173	(8,396)	23,777	32,173	$ (8,396)
TOTAL	$ 32,710	$ 34,348	$ (1,638)	$ 32,410	$ 41,261	$ (8,851)	$ 65,120	$ 75,609	$ (10,489)

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

Economic Factors and Next Years Budgets and Rates

Several factors that affect the economic climate in Bremerton were considered when preparing the City's 2013 annual budget. The outlook for the nation, state and region was weighed in relation to its expected impact on Bremerton. The character of the City, including its current and future business activity and its attraction as a place to live, was evaluated. The current financial position and the ability of the City to recover from its history of economic depression have improved slightly due to the major effort to rehabilitate Bremerton's downtown core and attract new investors to the community. In addition, the national, regional and local economic conditions began to show improvement during 2012; however, the impacts of federal sequestration had to be considered as it relates to the City of Bremerton.

Federal sequestration, which became effective on March 1, 2013, is expected to have a minimal impact on the City's local economy. However, the City's federal subsidy to pay a portion of its Build America Bonds obligations will see a decrease of 4.35% due to federal sequestration. The City has anticipated this reduction and has compensated for this reduction in its 2013 budget.

The State of Washington is continuing to face considerable budget challenges; however, the state's budget challenges have had limited effect on Bremerton's transportation capital funding received from the state. Over the past several years, Bremerton has been successful in attracting state and federal grant funds for major transportation improvement projects, including the multi-phase SR304 Bremerton Gateway transportation improvement project. Future outside funding opportunities will be highly competitive and Bremerton, due to its current economic demographics, should compete very well for certain projects. Mid- to long-term, Bremerton must increase its local revenue to address transportation needs. In an effort to do so, the Bremerton City Council, acting as the Bremerton Transportation Benefit District Board, enacted a $20 per vehicle car tab fee to be used solely for transportation projects. This fee was adopted in December 2011. The first receipts resulting from these revenues were received in 2012.

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

Of the multi-year plans to revitalize Bremerton, the following are completed as of December 2012; the Harborside Conference Center, Hotel and Plaza, Bremerton Ice Arena, Kitsap Credit Union Headquarters/Office building, downtown Naval Parking Garage, waterfront condominiums, Harborside Fountain Park and Naval Museum, downtown police station, Norm Dicks Government Center building, downtown fire station, downtown marina facility, the Downtown Pedestrian Bremerton Transit Center Access, PSNS Memorial Plaza, Fairfield Inn & Suites, downtown Municipal Courthouse, First Street Plaza and the revitalization of Lions Park. Construction of a parking garage and retail commercial pads at Burwell and Park Ave was substantially completed as of December 2012. In addition, a new multi-screen movie theater was completed during 2012 in association with the newly developed retail commercial pads. Highmark Homes LLC of Tukwila has purchased East Park, a 50-acre hillside site in East Bremerton for development of as many as 437 housing units. If built in its entirety, the new East Park will be among the largest neighborhoods constructed in Bremerton. The entire project would be constructed in six phases, to be built out over several years. The first phase of this project is underway.

Projects that are in the various stages of completion include; Bay Vista mixed use redevelopment project, the revitalization of Kiwanis park and a multi-unit apartment complex to be placed on top of the Park Plaza parking facility in the Harborside district.

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

In May 2012, the City began a yearlong comprehensive rate analysis on its Water, Wastewater, and Stormwater utilities, to include an analysis of its revenue and capital requirements for a minimum six year horizon. On April 3, 2013, the City completed and adopted this analysis on its three utilities, raising rates to adequately fund the operations and maintenance, capital, and the anticipated debt service needs for the three utilities over the next six years. This adopted analysis anticipates the issuance of up to a maximum of $35 million in revenue bonds. Again, the analysis adopted rate increases adequate to cover the related debt service on these bonds.

Requests for information

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

Statement of Net Position
December 31, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash & Cash Equivalents	$ 4,151,469	$ 8,503,983	$ 12,655,452
Investments	5,628,710	9,977,824	15,606,534
Receivables	4,540,579	4,727,087	9,267,666
Internal balances	255,567	(255,567)	-
Due from other governments	2,725,448	1,212,643	3,938,091
Inventories	108,743	1,026,323	1,135,066
Prepayments	22,368	11,256	33,624
Restricted assets:			
Investments	100,000	1,428,425	1,528,425
Special Assessments Receivable	-	310,544	310,544
Prepayments	372,049	-	372,049
Notes and contracts receivable:			
Due within one year	17,000	51,041	68,041
Due in more than one year	963,295	458,161	1,421,456
Capital assets net of depreciation	110,242,926	171,699,676	281,942,602
Intangible Assets	-	180,440	180,440
Other assets	626,967	331,555	958,522
Total assets	$ 129,755,121	$ 199,663,391	$ 329,418,512
Deferred outflows of resources	$ -	$ -	$ -
Liabilities			
Accounts payable and other current liabilities	$ 2,031,351	$ 997,261	$ 3,028,612
Employee wages payable	984,601	242,004	1,226,605
Other accrued liabilities	230,304	195,395	425,699
Custodial accounts	-	27,658	27,658
Noncurrent liabilities			
Due within one year	10,262,010	3,159,604	13,421,614
Due in more than one year	24,954,748	29,510,206	54,464,954
Total liabilities	$ 38,463,014	$ 34,132,128	$ 72,595,142
Deferred inflows of resources	$ -	$ -	$ -
Net Position			
Net investment in capital assets	$ 78,295,484	$ 139,494,215	$ 217,789,699
Restricted for:			
Tourism promotion & facilities	132,290	-	132,290
Parking system	534,760	-	534,760
Community development block grant	1,102,180	-	1,102,180
Public safety	834,032	-	834,032
Debt service	-	1,493,512	1,493,512
Workers compensation	100,000	-	100,000
Capital projects	1,497,663	123,457	1,621,120
Unrestricted	8,795,698	24,420,079	33,215,777
Total Net Position	$ 91,292,107	$ 165,531,263	$ 256,823,370

See accompanying notes to the financial statements.

Statement of Activities
For the Year Ended December 31, 2012

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Function/Program	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	$ 2,335,832	$ 1,341,366	$ -	$ -	$ (994,466)	$ -	$ (994,466)
Public safety	23,177,212	2,831,808	90,617	92,206	(20,162,581)	-	(20,162,581)
Utilities and environment	219,560	90,492	-	-	(129,068)	-	(129,068)
Transportation	4,206,821	1,516,736	-	5,981,226	3,291,141	-	3,291,141
Economic environment	1,865,434	518,050	587,247	-	(760,137)	-	(760,137)
Culture and recreation	6,061,443	1,849,414	-	773,816	(3,438,213)	-	(3,438,213)
Interest on long-term debt	1,172,255	-	-	-	(1,172,255)	-	(1,172,255)
Total governmental activities	39,038,557	8,147,866	677,864	6,847,248	(23,365,579)	-	(23,365,579)
Business-type activities							
Water	8,923,134	9,169,328	3,000	7,334,469	-	7,583,663	7,583,663
Wastewater	9,943,879	13,221,055	-	834,279	-	4,111,455	4,111,455
Golf course	2,271,036	2,023,310	-	-	-	(247,726)	(247,726)
Other proprietary funds	2,281,994	2,394,166	-	1,085,226	-	1,197,398	1,197,398
Total business-type activities	23,420,043	26,807,859	3,000	9,253,974	-	12,644,790	12,644,790
Total government	$ 62,458,600	$ 34,955,725	$ 680,864	$ 16,101,222	$ (23,365,579)	$ 12,644,790	$ (10,720,789)
General Revenues							
Taxes							
Property					8,578,750	-	8,578,750
Sales					7,295,954	16,201	7,312,155
Business					3,256,913	1,120	3,258,033
Utility					4,407,473	-	4,407,473
Other					2,679,142	-	2,679,142
Unrestricted investment interest					169,186	252,650	421,836
Miscellaneous					348,083	380,319	728,402
Gain/(Loss) on disposal of capital assets					(29,125)	50,691	21,566
Transfers, internal activities					4,462,373	(4,462,373)	-
Total general revenues and transfers					31,168,749	(3,761,392)	27,407,357
Change in net position					7,803,170	8,883,398	16,686,568
Net position-beginning					83,488,937	156,856,948	240,345,885
Prior period adjustment					-	(209,083)	(209,083)
Net position-ending					$ 91,292,107	$ 165,531,263	$ 256,823,370

See accompanying notes to the financial statements.

Balance Sheet
Governmental Funds
December 31, 2012

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash & Cash Equivalents	$ 1,242,602	$ 1,680,761	$ 2,923,363
Investments	2,293,821	1,787,651	4,081,472
Receivables	3,776,224	760,169	4,536,393
Due from other funds	1,093,551	69,254	1,162,805
Due from other governments	3,836	2,678,445	2,682,281
Inventories	18,418	-	18,418
Notes/contracts - deferred	-	980,295	980,295
Total assets	$ 8,428,452	$ 7,956,575	$ 16,385,027
Liabilities and Fund Balances			
Liabilities:			
Accounts/contracts payable	$ 629,091	$ 1,037,367	$ 1,666,458
Due to other funds	292,254	637,208	929,462
Due to other governments	30,980	67	31,047
Employee wages payable	857,036	51,210	908,246
Other current liabilities	25,303	205,000	230,303
Deferred revenues	1,991,118	1,347,427	3,338,545
Total liabilities	3,825,782	3,278,279	7,104,061
Fund balances:			
Nonspendable	18,418	-	18,418
Restricted	20,562	2,786,592	2,807,154
Committed	-	313,984	313,984
Assigned	545,168	1,577,720	2,122,888
Unassigned	4,018,522	-	4,018,522
Total fund balances	4,602,670	4,678,296	9,280,966
Total liabilities and fund balances	$ 8,428,452	$ 7,956,575	$ 16,385,027

Amounts reported for governmental activities in the statement of nets position are different because:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	110,242,926
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	4,011,661
Internal service funds are used by management to charge the costs of certain activities to individual funds. These assets and liabilities are included in governmental activities in the statement of net assets.	2,259,197
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(34,502,643)
Net position of governmental activities	$ 91,292,107

See accompanying notes to the financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012

	General Fund	Other Governmental Funds	Governmental Funds Total
Revenues			
Taxes			
Property	$ 7,778,202	$ 780,968	$ 8,559,170
Sales	6,956,360	756,725	7,713,085
Business	7,056,312	476,664	7,532,976
Other	243,497	427,807	671,304
Licenses and permits	867,468	265,833	1,133,301
Intergovernmental	1,259,048	5,702,323	6,961,371
Charges for services	6,166,734	434,854	6,601,588
Fines and forfeits	1,214,619	277,594	1,492,213
Miscellaneous	451,212	1,534,623	1,985,835
Total revenues	31,993,452	10,657,391	42,650,843
Expenditures			
Current			
General government	5,890,386	205,666	6,096,052
Public safety	20,890,868	270,999	21,161,867
Utilities and environment	219,560	-	219,560
Transportation	1,943,232	2,476,198	4,419,430
Economic environment	1,161,787	729,740	1,891,527
Mental/physical health	69,963	-	69,963
Culture and recreation	3,989,361	541,572	4,530,933
Debt service:			
Principal	70,000	1,388,239	1,458,239
Interest and other debt issue costs	136,591	1,003,525	1,140,116
Capital Outlay	131,725	5,576,624	5,708,349
Total expenditures	34,503,473	12,192,563	46,696,036
Excess (deficiency) of revenues over expenditures	(2,510,021)	(1,535,172)	(4,045,193)
Other financing sources (uses)			
Proceeds of long term debt	-	5,215,000	5,215,000
Premiums on Bonds Sold	-	122,033	122,033
Payments to refunded debt escrow agent	(102,619)	(5,551,195)	(5,653,814)
Insurance recoveries	349	-	349
Transfers in	4,647,514	1,427,176	6,074,690
Transfers out	(839,999)	(772,317)	(1,612,316)
Total other financing sources and uses	3,705,245	440,697	4,145,942
Other changes in fund balance			
Change in reserves for inventory	-	(23,264)	(23,264)
Net change in fund balances	1,195,224	(1,117,739)	77,485
Fund balances-beginning	3,407,446	5,796,035	9,203,481
Fund balances-ending	$ 4,602,670	$ 4,678,296	$ 9,280,966

See accompanying notes to the financial statements.

Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2012

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

Net change in fund balances – total government funds	$	77,485
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.		5,055,785
Revenues and expenses in the statement of activities that do not provide current financial resources are not reported in the funds.		(156,085)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		1,780,824
Internal service funds are used by management to charge the costs of fleet replacement and risk management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.		1,045,161
Change in net position of governmental activities	$	7,803,170

See accompanying notes to the financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended December 31, 2012

	Original Budget 2012	Final Budget 2012	Actual 2012	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	$ 21,968,900	$ 21,968,900	$ 22,034,371	$ 65,471
Licenses and permits	917,625	917,625	867,468	(50,157)
Intergovernmental	1,217,648	1,222,786	1,259,048	36,262
Charges for services	5,284,900	5,284,900	4,980,811	(304,089)
Fines and forfeits	1,133,730	1,133,730	1,214,619	80,889
Other Revenues	4,851,359	5,053,359	4,815,285	(238,074)
Total revenues	35,374,162	35,581,300	35,171,602	(409,698)
Expenditures				
City Council	332,770	332,770	323,799	8,971
Executive	370,360	370,360	359,142	11,218
Finance	1,149,840	1,153,840	1,077,938	75,902
Legal	971,550	981,650	902,601	79,049
Human Resources	333,210	398,010	305,250	92,760
Community Development	1,408,536	1,408,536	1,161,787	246,749
Municipal Court	1,294,187	1,294,187	1,251,646	42,541
City Auditor	170,960	170,960	166,714	4,246
Law Enforcement	9,498,837	9,598,837	9,090,504	508,333
Fire/Emergency Medical Services	8,311,214	8,413,452	8,346,964	66,488
Police & Fire Pension	2,544,000	2,544,000	2,178,153	365,847
Facilities	807,117	970,117	790,417	179,700
Parks & Recreation	2,593,741	2,608,741	2,515,992	92,749
Engineering	2,134,928	2,137,328	1,943,232	194,096
Non-Departmental	3,461,171	3,783,811	3,557,844	225,967
Total expenditures	35,382,421	36,166,599	33,971,983	2,194,616
Excess (deficiency) of revenues over expenditures	(8,259)	(585,299)	1,199,619	1,784,918
Fund balances-beginning	2,249,115	3,109,766	2,926,983	(182,783)
Fund balances-ending	$ 2,240,856	$ 2,524,467	$ 4,126,602	$ 1,602,135
Adjustment to reflect consolidation of Contingency Reserve and Conference Center funds included in the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds			$ 476,068	
Fund Balances Ending			$ 4,602,670	
Expenditures				
Personnel	26,436,100	26,636,500	25,458,332	1,178,168
Supplies, services & taxes	7,755,016	7,977,942	7,232,717	745,225
Capital expenditure	55,000	300,852	131,725	169,127
Debt Service	411,305	411,305	309,209	102,096
Transfers	725,000	840,000	840,000	-
Total expenditures	35,382,421	36,166,599	33,971,983	2,194,616

See accompanying notes to the financial statments.

Statement of Net Position
Proprietary Funds
December 31, 2012

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Nonmajor Enterprise Funds	Total	Internal Service Funds
Assets						
Current assets:						
Cash & Cash Equivalents	$ 2,293,076	$ 135,929	$ 2,692,198	$ 887,267	$ 6,008,470	$ 3,723,619
Restricted investments	46,222	-	1,382,203	-	$ 1,428,425	100,000
Investments	3,029,443	182,320	2,228,797	1,190,074	6,630,634	4,894,428
External receivables	1,493,833	1,252	2,473,695	801,016	4,769,796	-
Restricted special assesments rec	243,238	-	-	-	243,238	-
Interest receivable	2,247	132	2,639	870	5,888	3,650
Due from other funds	216,825	820	30,907	47,049	295,601	303,323
Due from other governments	-	-	530,077	682,566	1,212,643	-
Inventories	676,185	-	350,138	-	1,026,323	90,325
Prepayments	11,256	-	-	-	11,256	61,016
Total current assets	8,012,325	320,453	9,690,654	3,608,842	21,632,274	9,176,361
Noncurrent assets:						
Notes and contracts receivable	458,161	-	-	-	458,161	-
Restricted special assessments rec	67,306	-	-		67,306	-
Prepaid pension	-	-	-		-	333,401
Capital assets net of depreciation	59,993,614	7,477,685	95,191,616	5,271,284	167,934,199	3,771,635
Other noncurrent assets	331,571	21,003	159,421	-	511,995	-
Total noncurrent assets	60,850,652	7,498,688	95,351,037	5,271,284	168,971,661	4,105,036
Total assets	$ 68,862,977	$ 7,819,141	$ 105,041,691	$ 8,880,126	$ 190,603,935	$ 13,281,397
Deferred outflows of resources	$ -	$ -	$ -	$ -	$ -	$ -
Liabilities						
Current liabilities:						
Accounts/contract payable	$ 293,450	$ 50,543	$ 226,680	$ 302,771	$ 873,444	$ 219,086
Due to other funds	106,946	268,846	330,307	98,224	804,323	27,946
Employee wages payable	117,675	-	96,100	28,229	242,004	76,355
Other accrued liabilities	97,138	-	95,890	2,367	195,395	440,367
Current portion of long term debt	593,961	79,495	2,431,971	13,177	3,118,604	2,803
Bonds payable from restricted assets	41,000	-	-	-	41,000	-
Custodial accounts	27,158	-	-	500	27,658	-
Total current liabilities	1,277,328	398,884	3,180,948	445,268	5,302,428	766,557
Noncurrent liabilities:						
Claims and judgements payable	-	-	-	-	-	451,818
Bonds, notes and loans payable	4,210,663	4,774,461	19,900,775	108,507	28,994,406	-
Bonds payable from restricted assets	81,000	-	-		81,000	-
Compensated absences	236,941	-	152,198	45,661	434,800	57,705
Total noncurrent liabilities	4,528,604	4,774,461	20,052,973	154,168	29,510,206	509,523
Total liabilities	$ 5,805,932	$ 5,173,345	$ 23,233,921	$ 599,436	$ 34,812,634	$ 1,276,080
Deferred inflows of resources	$ -	$ -	$ -	$ -	$ -	$ -
Net Position						
Net investment in capital assets	55,082,247	2,623,729	72,869,849	5,152,913	135,728,738	-
Restricted for capital assets	-	-	123,457	-	123,457	100,000
Restricted for debt service	234,766	-	1,258,746	-	1,493,512	-
Unrestricted	7,740,032	22,067	7,555,718	3,127,777	18,445,594	11,905,317
Total net position	$ 63,057,045	$ 2,645,796	$ 81,807,770	$ 8,280,690	$ 155,791,301	$ 12,005,317
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					9,739,962	
Net position of business-type activities					$ 165,531,263	

See accompanying notes to the financial statements.

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2012

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Nonmajor Enterprise Funds	Total	Internal Service Funds
Operating revenues:						
Charges for services	$ 8,686,057	$ 1,944,690	$ 13,238,376	$ 2,214,871	$ 26,083,994	$ 4,186,548
Interest & dividend income	-	-	-	-	-	18,681
Other operating revenue	486,271	78,620	-	179,295	744,186	36,133
Total operating revenues	9,172,328	2,023,310	13,238,376	2,394,166	26,828,180	4,241,362
Operating expenses:						
General operations	1,690,868	618,813	2,754,754	631,112	5,695,547	2,818,661
Maintenance	2,802,721	1,083,948	1,880,542	1,148,106	6,915,317	-
Customer service and marketing	368,325	-	225,366	116,745	710,436	-
General administration	951,271	114,011	907,542	245,279	2,218,103	307,585
Depreciation and amortization	1,770,790	161,469	3,244,600	96,564	5,273,423	551,038
Property, excise and B&O taxes	397,175	9,159	391,258	39,257	836,849	-
Risk transfer payments	-	-	-	-	-	452,151
Payments to claimants & beneficiaries	-	-	-	-	-	(425,481)
Other operating expenses	452,926	-	-	-	452,926	51,174
Total operating expenses	8,434,076	1,987,400	9,404,062	2,277,063	22,102,601	3,755,128
Operating income (loss)	738,252	35,910	3,834,314	117,103	4,725,579	486,234
Nonoperating revenues (expenses)						
Interest and investment revenue	99,329	4,196	68,681	21,157	193,363	66,520
Interest expense	(127,380)	(207,523)	(422,036)	(4,931)	(761,870)	-
Gain (loss) on capital asset disposal	(8,360)	6,115	52,936	-	50,691	(10,671)
Other nonoperating revenue/expense	344,223	-	35,888	208	380,319	6,793
Total nonoperating revenues (expenses)	307,812	(197,212)	(264,531)	16,434	(137,497)	62,642
Income (loss) before contributions and transfers	1,046,064	(161,302)	3,569,783	133,537	4,588,082	548,876
Capital contributions	7,334,469	-	834,279	1,085,226	9,253,974	-
Transfers out	(1,310,542)	-	(2,699,404)	(452,427)	(4,462,373)	-
Change in net assets	7,069,991	(161,302)	1,704,658	766,336	9,379,683	548,876
Total net position - beginning	56,169,570	2,807,098	80,118,331	7,525,702		11,456,441
Prior period adjustment	(182,516)	-	(15,219)	(11,348)		-
Total net position - ending	$ 63,057,045	$ 2,645,796	$ 81,807,770	$ 8,280,690		$ 12,005,317
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(496,285)	
Change in net position of business-type activities					$ 8,883,398	

See accompanying notes to the financial statements.

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2012

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Nonmajor Enterprise Funds	Total	Internal Service Funds
Cash Flows From Operating Activities						
Cash received from customers	$ 8,668,272	$ 1,944,038	$ 13,195,287	$ 2,053,269	$ 25,860,866	$ 4,169,915
Interest on investments	-	-	-	-	-	19,366
Cash payments to suppliers	(3,526,449)	(1,813,536)	(3,677,116)	(1,080,686)	(10,097,787)	(1,982,631)
Cash payments to employees	(3,422,843)	-	(2,396,244)	(808,447)	(6,627,534)	(1,213,353)
Purchase of insurance	-	-	-	-	-	(411,256)
Payment for insurance claims	-	-	-	-	-	(403,726)
Other operating receipts and payments	484,076	78,743	-	111,996	674,815	53,238
Net cash provided by operating activities	2,203,056	209,245	7,121,927	276,132	9,810,360	231,553
Cash Flows From Noncapital Financing Activities						
Transfers out	(1,310,764)	-	(2,632,486)	(445,229)	(4,388,479)	-
Other nonoperating revenues/expenses	320,431	-	34,620	208	355,259	7,613
Net cash provided (used) by noncapital financing activities	(990,333)	-	(2,597,866)	(445,021)	(4,033,220)	7,613
Cash Flows From Capital and Related Financing Activities						
Acquisition and construction of capital assets	(1,091,792)	(295,459)	(5,048,994)	(198,769)	(6,635,014)	(142,603)
Proceeds/costs on sale of assets	-	5,295	-	-	5,295	24,050
Capital contributions	476,351	-	434,103	42,798	953,252	-
Insurance recoveries	1,359	-	225,000	-	226,359	-
Collections on notes receivable	82,397	-	-	-	82,397	-
Loan/grant proceeds	519,504	261,000	222,445	202,690	1,205,639	-
Principal paid on bonds	(41,000)	(105,000)	(334,000)	-	(480,000)	-
Principal paid on other debt	(578,705)	-	(2,100,057)	(9,864)	(2,688,626)	-
Interest paid on bonds and other debt	(115,778)	(180,707)	(428,939)	(5,129)	(730,553)	-
Net cash provided (used) for capital and related financing activities	(747,664)	(314,871)	(7,030,442)	31,726	(8,061,251)	(118,553)
Cash Flows From Investing Activities						
Proceeds from repayment of loans	12,233	-	-	-	12,233	87,592
Net change in investments	698,022	144,787	3,201,746	519,605	4,564,160	1,791,142
Issuance of interfund loans	-	-	-	-	-	(261,000)
Interest on loans and investments	52,387	4,421	73,481	22,154	152,443	69,593
Net cash provided (used) in investing activities	762,642	149,208	3,275,227	541,759	4,728,836	1,687,327
Net increase (decrease) in cash and cash equivalents	1,227,701	43,582	768,846	404,596	2,444,725	1,807,940
Cash - beginning of year	1,065,375	92,347	1,923,352	482,671	3,563,745	1,915,679
Cash - end of year	$ 2,293,076	$ 135,929	$ 2,692,198	$ 887,267	$ 6,008,470	$ 3,723,619
Cash at the end of the year consists of:						
Operating fund cash	2,293,076	135,929	2,692,198	887,267	6,008,470	3,723,619
Restricted cash	-	-	-	-	-	-
Total cash at end of year	$ 2,293,076	$ 135,929	$ 2,692,198	$ 887,267	$ 6,008,470	$ 3,723,619

See accompanying notes to the financial statements.

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2012

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Nonmajor Enterprise Funds	Total	Internal Service Funds
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	$ 738,252	$ 35,910	$ 3,834,314	$ 117,103	$ 4,725,579	$ 486,234
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	1,770,790	161,469	3,244,600	96,564	5,273,423	551,038
Decrease (increase) in receivables	(75,622)	244	(46,158)	(167,183)	(288,719)	685
Decrease (increase) in due from other funds/govt	(32,032)	1,107	25,725	(60,783)	(65,983)	6,406
Decrease (increase) in prepaid expenses	5,032	-	-	-	5,032	55,245
Decrease (increase) in inventory	(11,256)	-	-	-	(11,256)	(15,395)
Increase (decrease) in accounts payable	(78,229)	29,729	35,460	258,070	245,030	3,857
Increase (decrease) in due to other funds/govt	(22,698)	(15,941)	65,365	45,798	72,524	19,633
Increase (decrease) in employee wages payable	(34,564)	-	(176,464)	(5,582)	(216,610)	(25,638)
Increase (decrease) in employee leaves payable	(51,025)	-	141,546	(7,855)	82,666	(7,120)
Increase (decrease) in other payables	(5,592)	(3,273)	(2,461)	-	(11,326)	(843,392)
Net cash provided by operating activities	$ 2,203,056	$ 209,245	$ 7,121,927	$ 276,132	$ 9,810,360	$ 231,553
Noncash investing, capital and financial activities;						
Developers contributed infrastructure	$ 647,699	$ -	$ 400,176	$ 455,542	$ 1,503,417	$ -
Forgiven DWSRF ARRA Principle Loan	$ 6,210,419	$ -	$ -	$ -	$ 6,210,419	$ -

See accompanying notes to the financial statements.

Statement of Fiduciary Net Position
Fiduciary Funds
As of December 31, 2012

	Agency Funds
Assets	
Cash and cash equivalents	$ 288,865
Interfund receivables	2
Total assets	$ 288,867
Deferred outflows of resources	$ -
Liabilities	
Accounts/contracts payable	47,611
Other current liabilities	241,256
Total liabilities	$ 288,867
Deferred inflows of resources	$ -
Net Position	$ -

See accompanying notes to the financial statements.

Notes to Financial Statements
January 1, 2012 – December 31, 2012

1. Summary of significant accounting policies

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

A. Reporting Entity

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

In 2009, the City established the Bremerton Transportation Benefit District that meets the criteria of a component unit. See Note 7 for discussion of the Bremerton Transportation Benefit District. Financial Statements for this unit were not included for fiscal years prior to 2012 as no fees had been enacted nor transportation improvements funded.

B. Government-wide and fund financial statements

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

> The water and wastewater funds account for activities related to the ongoing operations of the City's water and sewer systems.
>
> The golf course fund accounts for the operations and maintenance of the City owned Gold Mountain Golf Course.

Additionally, the City reports the following fund types:

> Debt Service Funds account for the resources accumulated and payments made for principal and interest on general obligation debt except those required to be accounted for in another fund.
>
> Special Revenue Funds account for the proceeds of specific revenue sources to finance specific activities as required by law or administrative regulation. Their revenues are earmarked to finance certain activities or functions.
>
> Capital Project Funds account for the acquisition or development of capital facilities for governmental activities. Their major sources of revenues are from proceeds from general obligation bonds, loans, real estate excise tax, impact fees, grants from other agencies and contributions from other funds.
>
> Nonmajor Enterprise funds account for the operations, maintenance and capital additions of the City's stormwater utility.
>
> Internal service funds account for the accumulation of funds used to repair City vehicles and equipment and to replace them at the end of their useful lives. Funds are also accumulated for the purpose of carrying out the city's Risk Management, Information Technology Services, Unemployment and Employee leave payout activities. In all cases, City departments contribute according to the benefit provided by each fund.
>
> Agency funds account for assets held by a government as an agent for individuals, private organizations, other governments, and/or other funds. All funds are used for custodial or clearing purposes.

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

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

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

D. Budgetary Information

1. Scope of Budget

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

2. Amending the Budget

The City's budget is adopted at the department and category group level. The five distinct category groups are 1) Personnel, 2) Supplies, Services and Taxes, 3) Debt Service, 4) Capital Expenditures and 5) Transfers. Expenditures may not legally exceed appropriations at that level of detail. The Mayor may authorize a one-time transfer of less than $10,000 between category groups within a department. All other revisions within a fund or any revisions that alter the total expenditures of a fund, or affect the number of authorized employee positions or salary ranges must be approved by the City Council. The City's budget was amended two times in 2012.

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

E. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. At December 31, 2012, the City was holding $8,756,667 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 2012was $5,327,111.

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

2. Investments - See Note 3 Deposits and Investments.

3. Receivables

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

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2012, $193,396 of special assessments receivable were delinquent.

The amounts reported as notes and contracts receivable primarily represents housing rehabilitation loans resulting from the federal Department of Housing and Urban Development Community Development Block Grant programs. Deferred notes and contracts on the fund financial statement consist of outstanding loan balances that are liens against the property benefited and the note receivable from property sold. An indeterminate portion of the Block Grant loans will be forgiven if certain qualifying conditions are met by the loan recipients.

4. Amounts Due To and From Other Funds and Governments

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

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

5. Inventories

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

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

6. Restricted Assets and Liabilities

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

Restricted assets are composed of the following:

Governmental type:		
Investments - Workers compensation	$	100,000
Prepaid Pension- Workers Compensation		372,049
Total governmental	$	472,049
Business type:		
Investments - Debt service	$	1,304,968
Investments - Construction		123,457
Receivables - Debt service		310,544
Total business	$	1,738,969

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

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

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

The cost of normal maintenance and repairs are not capitalized.

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

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

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

8. Other Noncurrent Assets

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

9. 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:

Employee Group	Maximum Vacation Cash Out
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:

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

Compensatory time may be carried over from year to year.

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

Employee Group	Maximum Sick Leave Cash out
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.

10. 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.

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

12. Deferred Revenue

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

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

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

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

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

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

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

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

	General Fund		Other Funds		Total
Fund balances:					
Nonspendable:					
Inventory	$	18,418		$	18,418
Restricted for:					
Tourism promotion & facilities		20,562	111,728		132,290
Parking system			218,834		218,834
Community development block grant			251,885		251,885
Public safety			833,699		833,699
Debt service			2,810		2,810
Capital projects			1,367,636		1,367,636
Committed to:					
Employee Wellness			6,637		6,637
Parks			33,594		33,594
Public Access Television			182,706		182,706
Public safety			39,303		39,303
Public art			51,744		51,744
Assigned to:					
2013 Budget		545,168			545,168
Street Operations			387,331		387,331
Tourism promotion & facilities			23,486		23,486
Building Abatement			248,229		248,229
Court Improvement			4,223		4,223
Debt Service			237,363		237,363
Park Capital			564,670		564,670
Capital Improvements			112,418		112,418
Unassigned:		4,018,522			4,018,522
Total Fund Balances	$	4,602,670	$ 4,678,296	$	9,280,966

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. Under the default policy provided in GASB 54, unrestricted resources are reduced in the following order when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used: committed amounts are reduced first, followed by assigned amounts, and then unassigned.

A minimum fund balance policy has been established by the City Council that establishes target year end operating cash and investment balances as a percentage of budgeted operating expenditures for the City's General, Water, Wastewater, Stormwater and Golf Course funds. The following table shows the status at December 31, 2012.

Fund	Target Rate	Target Balance	Balance 12/31/2012
General	8.5%	$ 3,048,589	$ 2,944,778
Water	12%	1,136,491	4,292,120
Wastewater	12%	1,474,417	4,468,903
Stormwater	12%	282,592	1,518,811
Golf Course	12%	251,815	318,249

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

In May of 2011 the City Council authorized the expenditure of $1,150,000 to settle a dispute over a contingent loan agreement between the City, Kitsap County and Kitsap Consolidated Housing Authority. At 12/31/12 the balance was

$234,192. The fund balance of this management fund is reported as part of the General Fund. The 2013 amended budget includes $230,000 towards the rebuilding of the reserve amount.

2. Reconciliation of Government-wide and Fund Financial Statements

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

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

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

Capital Assets of governmental funds net of depreciation	$ 110,236,768
Capital Assets of Internal Service funds included in govermental activities net of depreciation	6,158
Net adjustment to increase fund balance - total governmental funds to arrive at net position of governmental activities	$ 110,242,926

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	$ 3,338,545
Investment interest accrued beyond the city's 30 day measurable and available period	2,982
Build America Bond subsidy beyond the city's 30 day measurable and available period	43,167
Deferred charge for bond issue costs	244,420
Other post-employment benefits	382,547
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	$ 4,011,661

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

Net position of Internal service funds included in governmental activities	$ 2,265,355
Net capital assets of Internal Service funds included in governmental activities	(6,158)
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	$ 2,259,197

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	$ (32,710,000)
Less: Issuance premiums	(432,125)
Add: Deferred amount on refunding	1,194,683
Other Long term payables	0
Accrued interest payable	(238,577)
Compensated absences	(2,316,624)
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	$ (34,502,643)

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	$ 5,708,350
Depreciation	(3,570,583)
Contributions of capital assets	2,947,143
Loss on retirement of capital assets	(29,125)
Net adjustment to increase net change in fund balances - governmental funds to arrive at change in net position - govermental activities	$ 5,055,785

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	$ 6,853,239
Principal of GO Bonds Issued	(5,215,000)
Long Term Notes Issued	-
Unamortized debt issuance costs	142,585
Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net position of governmental activities	$ 1,780,824

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	$ (3,629)
Change in deferred property taxes receivable	19,579
Change in court fines receivable	(14,192)
Change in block grant loans receivable	34,157
Change in parking/red light fines receivable	136,046
Change in BKAT contracts receivable	(17,000)
Change in Build America Bond subsidy receivable	(395)
Change in other post-employment benefits payable	(32,169)
Change in accrued interest payable	(37,944)
Change in compensated absences payable	(240,538)
Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net position of governmental funds	$ (156,085)

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	$	1,033,230
Net Revenue of employment security activities	$	160,820
Net Revenue of Accrued Leave activities	$	3,732
Net revenue of information technology activities		(164,804)
Net revenue of equipment maintenance activities		12,183
Net adjustment to decrease net change in fund balances - governmental funds to arrive at change in net position of governmental funds	$	1,045,161

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 assets at cost.

Investment Type	Rating	Weighted Average Maturities	Fair Value	% of Portfolio
Cash & Cash Equivalents				
Washington State Local Government Inv. Pool	NR	0.13	$8,756,667	
Cash on hand			4,187,650	
Total Cash & Cash Equivalents			12,944,317	
Investments				
US Agency securities				
Federal National Mortgage Assn	AA	2.62	4,037,879	24%
Federal Farm Credit Banks	AA	1.17	2,016,920	12%
Federal Home Loan Bank	AA	1.71	6,022,160	35%
Federal Home Loan Mortgage Corp	AA	2.93	-	0%
			-	0%
City of Bremerton LTGO Bonds	NR	13.5	5,058,000	30%
Total Investments			17,134,959	
Total Cash & Investments			30,079,276	

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

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

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

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

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

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 revenue and recognized as revenue of the period to which they apply. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

RCW 84.52.043 allows a city to levy taxes of up to $3.375 per $1,000 of taxable property in the city and RCW 41.14.060 allows an additional $0.225 per $1,000 for any municipal purpose, if not required to fund pension programs. For cities annexed to a library district, such as the City, the maximum levy rate is reduced by the amount of the library district levy. For tax year 2012, the Kitsap Regional Library District levied $0.37 per $1,000 of assessed valuation, and therefore the City's maximum levy rate is $3.23 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 2012 was $2.559062 per $1,000 on an assessed valuation of $2.549 billion, for a total regular levy of $6,522,962.

Special levies, approved by the voters are not subject to the above limitations. In 2012, the City levied an additional $0.81 per $1,000 for General Obligation Bonds and Emergency Medical Services, for a total additional levy of $2,053,308.

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, 2012 was as follows:

Governmental Activities	Beginning Balance 1/1/2012	Increases	Decreases	Ending Balance 12/31/2012
Capital assets, not being depreciated:				
Land	$ 17,406,238	$ 27,544	-	$ 17,433,782
Construction in progress	11,651,214	5,951,495	435,172	17,167,537
Total capital assets, not being depreciated	29,057,452	5,979,039	435,172	34,601,319
Capital assets, being depreciated:				
Buildings/building improvements	56,672,424	27,288	8,782	56,690,930
Improvements other than buildings	17,658,185	93,980	76,596	17,675,569
Machinery and equipment	8,816,098	162,201	98,525	8,879,774
Infrastructure	34,454,683	2,828,157	-	37,282,840
Total capital assets, being depreciated	117,601,390	3,111,626	183,903	120,529,113
Less accumulated depreciation for:				
Buildings/buildings improvements	9,496,965	1,159,267	1,786	10,654,446
Improvements other than buildings	8,295,123	817,891	61,058	9,051,956
Machinery and equipment	5,472,391	512,806	91,934	5,893,263
Infrastructure	18,201,566	1,086,275	-	19,287,841
Total accumulated depreciation	41,466,045	3,576,239	154,778	44,887,506
Total capital assets, being depreciated, net	76,135,345	(464,613)	29,125	75,641,607
Governmental activities capital assets, net	$ 105,192,797	$ 5,514,426	$ 464,297	$ 110,242,926

Business-type Activities	Beginning Balance 1/1/2012	Increases	Decreases	Ending Balance 12/31/2012
Capital assets, not being depreciated:				
Land	$ 8,601,813	$ 504,889	-	$ 9,106,702
Construction in progress	8,708,059	5,844,825	10,258,640	4,294,244
Total capital assets, not being depreciated	17,309,872	6,349,714	10,258,640	13,400,946
Capital assets, being depreciated:				
Buildings/building improvements	50,988,939	2,995,614	-	53,984,553
Improvements other than buildings	130,215,313	4,056,458	14,977	134,256,794
Machinery and equipment	52,653,049	4,557,894	1,603,792	55,607,151
Total capital assets, being depreciated	233,857,301	11,609,966	1,618,769	243,848,498
Less accumulated depreciation for:				
Buildings/buildings improvements	18,458,936	968,686	-	19,427,622
Improvements other than buildings	38,950,300	2,527,092	14,977	41,462,415
Machinery and equipment	23,796,061	2,250,957	1,387,287	24,659,731
Total accumulated depreciation	81,205,297	5,746,735	1,402,264	85,549,768
Total capital assets, being depreciated, net	152,652,004	5,863,231	216,505	158,298,730
Business-type activities Capital assets, net	$ 169,961,876	$ 12,212,945	$ 10,475,145	$ 171,699,676

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

Governmental Activities:		
General government	$	215,553
Public safety		594,940
Transportation, including depreciation of general infrastructure assets		1,074,634
Economic environment		348
Culture and recreation		1,685,108
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		5,656
Total depreciation expense - Governmental activities	$	3,576,239
Business-type activities:		
Water	$	1,705,747
Wastewater		3,237,575
Stormwater		96,564
Golf		161,467
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		545,382
Total depreciation expense - Business-type activities	$	5,746,735

6. Construction Commitments

At December 31, 2012 the City had several construction projects underway. The following table contains the projects and status at year end.

Project	Spent to Date	Remaining Commitment
Park Plaza Construction	7,208,264	130,595
Cross Town Pipeline	2,327,167	29,451
11th & Warren Cosntruction	767,072	506,752
Pacific 11th to Sheldon	174,756	17,533
E 11th Shore Dr to Pitt	74,874	11,858
LID Pacific Avenune	215,805	82,492
LID Manetter Business Area	119,837	130,089
Bremerton Highway Safety Improvements	710,666	58,934
Price Rd PRV	0	26,256
Cook Rd Booster Station	0	18,704
	$ 11,598,441	$ 1,012,664

7. Component Unit

On February 4, 2009 the City authorized and approved the creation of a Transportation Benefit District (TBD) coextensive with the boundaries of the City in order to exercise the powers available under RCW 36.73. This blended component unit is governed by a board composed of the nine members of the Bremerton City Council, who serve in an ex-officio and independent capacity. The primary purpose of the District is the acquisition, construction, improvement, provision and/or funding of the maintenance of City streets and related infrastructure. The TBD is an independent taxing district and was established primarily to benefit the City of Bremerton satisfying GASB Statement No. 14’s criteria for the recognition of the TBD as a blended component unit of the City. Beginning fiscal year 2012, the TBD has enacted a $20 per vehicle license fee to fund appropriate projects. In 2012, the TBD received total collections from vehicle license fees of $160,676. There were no expenses or capital assets to report in 2012.

8. Pension Plans

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

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

Plan Description

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

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

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

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

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and on-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

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

PERS Plan 1 members are eligible for retirement after 30 years of service, or at age 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. The retirement benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum of retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is further reduced. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

PERS Plan 2 members are vested after completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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

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

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

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

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were $95.2 million, and plan refunds paid out were $66.2 million.

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

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

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

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

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

PERS Plan 2 and Plan 3 provided disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

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

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

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

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

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

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

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and beneficiaries receiving benefits	79,363
Terminated plan members entitled to but not yet receiving benefits	29,925
Active plan members vested	105,578
Active plan members non-vested	46,839
Total	**261,705**

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at a 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

Members Not Participating in JBM:

	PERS Plan I	PERS Plan 2	PERS Plan 3
Employer *	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan I	PERS Plan 2	PERS Plan 3
Employer-State Agency*	9.71%	9.71%	9.71%**
Employer-Local Agency*	7.21%	7.21%	7.21%**
Employee-State Agency	9.76%	9.10%	7.50%**
Employee-Local Agency	12.26%	11.60%	7.50%**

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

**Plan 3 defined benefit portion only.

***Minimum rate.

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

	PERS Plan I	PERS Plan 2	PERS Plan 3
2012	$ 57,198	$ 771,999	$ 102,682
2011	$ 59,297	$ 690,533	$ 88,187
2010	$ 63,887	$ 596,771	$ 80,024

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

Plan Description

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

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

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

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

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

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

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

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

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

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

Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

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

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

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

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A disability benefit equal to 70 percent of FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

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

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

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

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

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

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries. Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is no in conflict with federal laws.

There are 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and beneficiaries receiving benefits	9,947
Terminated plan members entitled to but not yet receiving benefits	656
Active plan members vested	13,942
Active plan members non-vested	3,113
Total	**27,658**

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For DRS' fiscal year 2012, the state contributed $52.8 million to LEOFF Plan 2.

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

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

*The employer rates include the employer administrative expense fee currently set at 0.16%.
**The employer rate for ports and universities is 8.62%

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

	LEOFF Plan 1	**LEOFF Plan 2**
2012	$ 545	$ 549,928
2011	$ 758	$ 555,170
2010	$ 736	$ 547,704

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by Chapter 41.37 RCW and may be amended only by the State Legislature.

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

PSERS membership includes:

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

A *covered employer* is one that participates in PSERS. Covered employers include the following:

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

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

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

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

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

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies.

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

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

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

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

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

There are 76 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2011:

Retirees and beneficiaries receiving benefits	15
Terminated plan members entitled to but not yet receiving benefits	1
Active plan members vested	167
Active plan members non-vested	4,020
Total	**4,203**

Funding Policy
Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

	PSERS Plan 2
Employer*	8.87%
Employee	6.36%

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

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

	PSERS Plan 2
2012	$ 10,667
2011	$ 9,864
2010	$ 9,111

9. Risk Management

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

Following is a summary of the City's 2012 insurance coverage and risk retention:

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

The risk manager and claims administrators establish reserves for open claims on a case by case basis, after an assessment of each claim's settlement value. Actuarial techniques are used to estimate the long-term liability of the fund for both reported and unreported losses. As of December 31, 2012, the Risk Management Fund had cash and investment reserves of $2,071,231. In September 2010 the City cash-funded a long term workers' compensation pension with the Department of Labor & Industries in the amount of $468,669. The Statement of Net Position for the Risk Management fund includes the unspent portion of this amount in prepayments. Long-term fund liabilities have been estimated at $451,818. 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 $440,367.

The following table shows the actual claims activity for 2011 and 2012:

	2011	2012
Claims liability - beginning of year	$ 1,669,403	$ 1,759,683
Claims incurred	1,304,200	409,438
Estimate change prior years	(877,318)	(903,812)
Payment on claims	(336,602)	(373,125)
Claims liability - end of year	$ 1,759,683	$ 892,184

10. Long-term Debt

A. Long Term Debt

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

General obligation bonds currently outstanding are as follows:

	Maturity Date	Interest Rate	Outstanding 12/31/2012
2009 LTGO Refunding	12/31/28	3.0 / 4.5	5,058,000
2010 LTGO BABS	09/01/35	3.61	6,555,000
2010 UTGO Refunding	12/01/27	3.07	9,775,000
2010 LTGO (B) BABS	12/01/30	3.42	2,220,000
2011 LTGO BAN	07/29/13	Variable	8,910,000
2011 Promissory Note - Kitsap County	05/16/14	0	35,000
2012 LTGO Refunding - Govt Center	12/31/21	4.00	5,215,000
Total General Obligation Bonds and Notes			$ 37,768,000

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

Year Ending	Governmental Activities		Business Activities	
December 31	Principal	Interest	Principal	Interest
2013	$ 9,870,000	$ 992,375	$ 105,000	$ 177,030
2014	1,070,000	904,392	200,000	198,120
2015	1,055,000	881,386	220,000	190,120
2016	1,095,000	853,080	245,000	203,985
2017	1,110,000	822,630	270,000	192,960
2018-2022	6,025,000	3,545,842	1,587,000	767,520
2023-2027	7,120,000	2,274,908	1,980,000	376,650
2028-2032	3,560,000	974,887	451,000	20,295
2033-2035	1,805,000	176,745		
Total	$ 32,710,000	$ 11,426,245	$ 5,058,000	$ 2,126,680

Revenue bonds and loans currently outstanding are as follows:

	Maturity Date	Interest Rate		Outstanding 12/31/2012
1994 PWTF Loan - Warren Ave CSO	07/01/14	1.0	$	319,212
1995 PWTF Loan WWTP improvements	07/01/15	1.0		555,702
1996 PWTF Loan Callow Ave CSO I	07/01/16	1.0		605,781
1997 PWTF Loan Callow Ave CSO II	07/01/17	1.0		176,260
1998 PWTF Loan SR 303 water main	07/01/18	1.0		994,737
1999 PWTF Loan Tracyton water sys ph2	07/01/19	2.0		69,352
1999 PWTF Loan CSO design	07/01/20	1.0		341,548
2000 PWTF Loan Multi-Basin CSO	07/01/20	1.0		1,194,607
2000 PWTF Loan Callow CSO 3-5	07/01/20	1.0		1,787,437
2001 PWTF Loan East Bremerton CSO	07/01/21	0.5		1,425,000
2003 PWTF Loan Anderson Cove Basin 12	07/01/23	0.5		317,339
2003 PWTF Loan Naval Avenue	07/01/23	4.0		144,738
2004 PWTF Loan Brentwood storm drain red	07/01/24	4.0		118,371
2004 PWTF Loan Pacific Ave Basin CSO	07/01/24	0.5		839,728
2006 PWTF Loan WWTP upgrade	07/01/25	0.5		138,743
2007 PWTF Anderson Cove sewer PS CW1	07/01/27	0.5		532,895
2007 PWTF WWTP upgrades	07/01/27	0.5		2,444,406
1994 CCWF Loan Callow Ave CSO design	05/01/17	0.0		167,717
1997 CCWF Loan Callow Ave CSO I	07/31/18	4.8		1,081,777
1998 DWSRF Loan corrosion control facility	10/01/18	4.0		330,100
2009 DWSRF UV Treatment Upgrade (ARRA)	10/1/17	0.0		49,683
2001 DWSRF Loan Tracyton WD upgrade	10/01/21	2.5		1,256,241
2002 DWSRF Loan Eastside flow & pressure	10/1/22	2.5		610,202
2002 DWSRF Loan Casad Dam seismic upgrade	10/1/22	2.5		392,758
2003 DWSRF Loan Casad Dam intake tower	10/01/23	1.5		48,410
2003 DWSRF Loan Pump Station 4 upgrade	10/01/23	1.5		633,723
2004 DWSRF Loan Anderson Creek	10/01/24	1.5		64,582
2004 DWSRF Loan seismic upgrades	10/01/24	1.5		339,579
1999 WPCRF Loan CSO plan update	12/31/22	1.5		138,203
1999 WPCRF Loan Anderson Cove CSO	02/27/21	1.5		452,883
1999 WPCRF Loan Callow Ave CSO final	12/31/22	1.5		319,618
2002 WPCRF Loan Anderson CV CSO red	1/23/22	1.5		335,125
2002 WPCRF Loan Cherry/Trenton CSO red	10/15/24	1.5		666,164
2002 WPCRF Loan Trenton pump station	10/15/24	1.5		665,734
2002 WPCRF Loan Tracyton Beach CSO	12/31/25	1.5		402,441
2002 WPCRF Loan Anderson Cove Basin 12	12/31/26	1.5		190,511
2003 WPCRF Pacific Ave CSO red-sep	6/30/24	1.5		209,331
2003 WPCRF Loan Pacific Ave CSO reduction	12/31/27	1.5		834,979
2004 WPCRF Loan Cherry/Trenton CSO red-1	12/31/26	1.5		822,484
2007 WPCRF WWTP upgrade	1/1/29	2.6		549,113
2009 WPCRF Gorst Sewerage Constuction	12/31/30	1.4		561,095
2009 WPCRF Gorst Septic System Design	12/31/30	2.9		107,662
2009 WPCRF Gorst Sewerage Design	12/31/30	1.4		540,533
2007 W/S Refunding Revenue bond	12/01/21	4.3		3,575,000
Total revenue bonds and loans			$	27,351,504

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

Year Ending December 31	Governmental Activities Principal	Governmental Activities Interest	Business Activities Principal	Business Activities Interest
2013	$ -	$ -	$ 3,050,562	$ 495,966
2014	-	-	3,075,667	426,867
2015	-	-	2,946,662	385,043
2016	-	-	2,752,546	329,556
2017	-	-	2,601,701	276,454
2018-2022	-	-	9,689,046	669,794
2023-2027	-	-	2,894,392	112,335
2028-2030	-	-	340,928	9,011
Total	$ -	$ -	$ 27,351,504	$ 2,705,026

On February 20, 2003, the City issued $10,865,000 principal amount of Weekly Rate Demand Revenue Bonds, 2003, (Kitsap Regional Conference Center Parking Garage). Those bonds were secured by a letter of credit from Bank of America (the "Bank") that initially expired on February 10, 2006, and was extended. The current letter of credit expired on August 10, 2011. On August 1, 2011 the letter of credit facility was replaced by issuance of a $9,675,000 limited tax general obligation bond anticipation note due on August 1, 2013. On May 23, 2013, the City refunded this bond anticipation note (see Note 19 Subsequent Events).

The interest rate on the 2011 BAN is based on the BBA LIBOR Daily Floating Rate and is computed on the principal amount outstanding on the basis of a 360 day year and the actual days elapsed. The effective rate at December 31, 2012 was 1.1378%.

In 2009 the City was awarded a $ 6,272,523 Drinking Water Assistance loan, funded through the American Recovery and Reinvestment Act of 2009 for the design and construction of a UV Treatment and Chlorine disinfection Facility. Terms of the loan provide that at project completion, the lesser of the loan amount less the loan fee or the actual eligible costs less the loan fee will be forgiven. The project was completed in 2012 and the loan amount of $6,210,419 was forgiven.

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

At December 31, 2012, the city has $240,173 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain $1,428,425 in sinking funds and reserves as required by bond indentures.

B. Refunded Debt

The City issued $5,215,000 of general obligation refunding bonds to provide resources to purchase U.S. Government and state and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on $5,395,000 of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. This advance refunding was undertaken to reduce total debt service payments over the next twenty two years by $1,689,887 and resulted in an economic gain of $963,804.

11. Changes in Long Term Liabilities

During the year ended December 31, 2012, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2012	Additions	Reductions	Ending Balance 12/31/2012	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds	$ 34,300,000	$ 5,215,000	$ 6,840,000	$ 32,675,000	$ 9,870,000
Notes Payable	48,239	-	13,239	35,000	-
Add unamortized premiums	338,513	122,033	28,421	432,125	26,502
Less deferred refunding expense	(1,013,192)	(258,813)	(77,322)	(1,194,683)	(74,859)
Total bonds payable:	33,673,560	5,078,220	6,804,338	31,947,442	9,821,643
Claims and judgments	1,759,683	409,438	1,276,937	892,184	440,367
Compensated absences	2,168,174	2,172,368	1,963,410	2,377,132	-
Governmental activity long-term liabilities:	$ 37,601,417	$ 7,660,026	$ 10,044,685	$ 35,216,758	$ 10,262,010

	Beginning Balance 1/1/2012	Additions	Reductions	Ending Balance 12/31/2012	Due Within One Year
Business-type Activities:					
Bonds payable:					
General obligation bonds	$ 5,163,000	$ -	$ 105,000	$ 5,058,000	$ 105,000
Revenue bonds	3,925,000	-	350,000	3,575,000	365,000
Less deferred refunding expense	(229,548)	-	(25,505)	(204,043)	(25,505)
Total bonds payable:	8,858,452	-	429,495	8,428,957	444,495
Intergovernmental loans	32,172,546	503,004	8,899,046	23,776,504	2,685,561
Compensated Absences	555,539	311,840	403,030	464,349	29,548
Business-type activity long-term liabilities:	$ 41,586,537	$ 814,844	$ 9,731,571	$ 32,669,810	$ 3,159,604

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 $892,184 of Risk Management claims and judgments and $60,508 of compensated absences are included in the above governmental activities amounts. Also, for the governmental activities, compensated absences are generally liquidated by the general fund and claims and judgments by the Risk Management internal service fund.

12. Contingencies and Litigation

As of December 31, 2012, there were a small number of claims for damages and lawsuits pending against the City. In the opinion of the City's legal counsel, neither the potential liability for any single claim or lawsuit, nor the aggregate potential liability arising from all actions currently pending would materially affect the financial condition of the City.

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

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

13. Restricted Net Position

The government-wide statement of net position reports $5,817,894 of restricted net position, all of which is restricted by enabling legislation and external contractual commitments.

14. Interfund Balances and Transfers

A. Interfund Balances

Interfund balances at December 31, 2012 were as follows:

		Due From								
		General Fund	Other Govt	Water	Waste-Water	Golf	Other Proprietary	Internal Service	Fiduciary	Total
Due To	General Fund	$ -	$ 80,141	$ 102,202	$ 317,195	$ 7,846	$ 48,062	$ 1,076	$ -	$ 556,522
	Other governmental funds	-	9,771	-	-	-	41,483	18,000	-	69,254
	Water	37,473	315	-	10,001	-	5,255	-	-	53,044
	Wastewater	27,950	-	538	-	-	2,419	-	-	30,907
	Golf	-	-	-	-	-	-	820	-	820
	Other proprietary funds	38,025	8,535	489	-	-	-	-	-	47,049
	Fiduciary funds	-	2	-	-	-	-	-	-	2
	Internal Service	25,025	1,415	3,717	3,111	-	1,005	8,050	-	42,323
	Total	$ 128,473	$ 100,179	$ 106,946	$ 330,307	$ 7,846	$ 98,224	$ 27,946	$ -	$ 799,921

Interfund balances at year end were a result of outstanding interfund loans as well as amounts due for services provided between funds. Amounts due for services will be liquidated early in 2013. Interfund loans are approved by City Council Resolution and include a repayment date. The following schedule is a summary of loans outstanding at year end including the year of final payment.

			Loaned To			
Loaned From	**Purpose**	**Yr of final Payment**	***General Fund***	***Other Govt***	***Golf Course***	***Total***
Water	Park Land	2025	$ 163,781	$ -	$ -	163,781
Internal service	Equipment purchase	2016	-	-	261,000	261,000
General	Arterial Street	2013	-	499,193	-	499,193
General	Evergreen Remediation	2013	-	37,836	-	37,836
Total			$ 163,781	$ 537,029	$ 261,000	$ 961,810

B. Interfund Transfers

Interfund transfers at December 31, 2012 were as follows:

		Transfer From					
		General Fund	**Other Govt**	Water	Waste-Water	Other Proprietary	Total
Transfer To	General Fund	$ -	$ 415,000	$1,310,542	$2,699,404	$ 107,568	$ 4,532,514
	Other governmental funds	840,000	357,317	-	-	344,859	1,542,176
	Total	$ 840,000	$ 772,317	$1,310,542	$2,699,404	$ 452,427	$ 6,074,690

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

There were no significant transfers during 2012.

15. Receivable and Payable Balances

A. Receivables

Receivables at December 31, 2012 were as follows:

	Accounts	Taxes	Special Assessments	Notes Contracts	Other	Total
Governmental Activities:						
General Fund	$ 1,529,684	$ 2,231,103	$ -	$ 15,437	$ -	$ 3,776,224
Non-major and other funds	437,605	322,564	-	980,295	-	1,740,464
Reconciliation of balances in fund financial statements to government-wide financial statements	-	-	-	-	4,186	4,186
Total governmental activities	$ 1,967,289	$ 2,553,667	$ -	$ 995,732	$ 4,186	$ 5,520,874
Business-Type Activities:						
Water	$ 1,391,172	-	310,544	560,822	$ 2,247	$ 2,264,785
Golf	-	-	-	1,252	132	1,384
Wastewater	2,473,570	125	-	-	2,639	2,476,334
Other Proprietary Funds	801,016	-	-	-	870	801,886
Reconciliation of balances in fund financial statements to government-wide financial statements			-		2,444	2,444
Total business-type activities	$ 4,665,758	$ 125	$ 310,544	$ 562,074	$ 8,332	$ 5,546,833

B. Payables

Accounts Payable and other accrued liabilities at December 31, 2012 were as follows:

	Vendors	Retainage	Due to Other Governments	Other	Total
Governmental Activities:					
General Fund	$ 627,675	$ 1,416	$ 30,980	$ 25,303	$ 685,374
Non-major and other funds	905,827	131,540	67	205,000	1,242,434
Reconciliation of balances in fund financial statements to government-wide financial statements	95,269	-	-	$ 238,578	333,847
Total governmental activities	$ 1,628,771	$ 132,956	$ 31,047	$ 468,881	$ 2,261,655

	Vendors	Retainage	Due to Other Governments	Other	Total
Business-Type Activities:					
Water	$ 293,450	$ -	$ -	$ 97,138	$ 390,588
Golf	50,543	-	-	-	50,543
Wastewater	226,680	-	-	95,890	322,570
Other Proprietary funds	292,909	9,862	-	2,367	305,138
Reconciliation of balances in fund financial statements to government-wide financial statements	123,817	-	-	-	123,817
Total business-type activities	$ 987,399	$ 9,862	$ -	$ 195,395	$ 1,192,656

16. Post Employment Benefits other than Pension

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

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

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

Annual OPEB Cost and Net OPEB Obligation
The City's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of fifteen years as of January 1, 2012. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB. The net OPEB obligation of ($382,547) is included as a noncurrent asset on the Statement of Net Position.

	Fiscal Year Ending 12/31/12
Determination of Annual Required Contribution:	
Amortization of UAAL*	1,492,940
Interest on Amortization Payment	(11,498)
Annual Required Contribution (ARC)	$ 1,481,442

Determination of NET OPEB Obligation:		
Annual Required Contribution	$	1,481,442
Adjustment to ARC		33,727
Annual OPEB Cost	$	1,515,169
Contributions		(1,483,000)
Change in Net OPEB Obligations	$	32,169
Net OPEB Obligations - beginning of year	$	(414,716)
Net OPEB Obligations - end of year	$	(382,547)

* Unfunded Actuarial Accrued Liability (UAAL)

The City's OPEB cost, the percentage OPEB cost contributed to the plan and the net OPEB Assets for 2012 and the preceding three years, was as follows:

Fiscal year Ended	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	Net OPEB Obligation
12/31/2010	$ 1,366,185	105.61%	$ (357,107)
12/31/2011	$ 1,366,185	104.22%	$ (414,716)
12/31/2012	$ 1,515,169	78.15%	$ (382,547)

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

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

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

In the December 31, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions used included a 3.0% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance payment of benefits. A medical inflation rate of 10% graded to 5% over six years was used along with a long term care inflation rate of 3.0%.

The UAAL is being amortized on an open amortization level dollar amount over 15 years. The remaining amortization period at December 31, 2012 was 14 years.

17. Segment Information

The City operates a utility system providing water, wastewater and stormwater management services to the citizens of Bremerton and a portion of Kitsap County outside city boundaries. Operations are financed by user fees imposed on customers of each utility. The City has issued revenue bonds to finance improvements to its sewer system. While the operations of each utility are accounted for in separate funds, the repayment of the revenue bonds relies on the combined revenues of all three utilities. In addition, the City operates a public golf course whose operations are funded entirely through user fees. With the exception of the combined utility, there are no revenue bonds issued or other revenue-backed debt outstanding for which full, detailed segment data is not provided in the proprietary fund financial statements.

The key financial data for the year ended December 31, 2012 for the combined utility operations are as follows:

Condensed Statement of Net Assets	
Assets	
Current assets	$ 21,303,837
Restricted assets	525,467
Capital assets	160,456,514
Other assets	490,992
Total assets	182,776,810
Liabilities	
Current liabilities	4,895,560
Long-term liabilities	24,735,745
Total liabilities	29,631,305
Net Assets	
Restricted for debt service	1,493,512
Restricted for capital replacement	123,457
Unrestricted	18,423,527
Invested in capital assets net of related debt	133,105,009
Total net assets	$ 153,145,505
Condensed Statement of Revenues, Expenses and Changes in Net Assets	
Total operating revenues	$ 24,804,870
Operating Expenditures:	
Operations & maintenance	15,003,247
Depreciation/amortization/depletion	5,111,954
Total operating expenses	20,115,201
Operating income(loss)	4,689,669
Non-Operating Revenues/Expenses	
Interest revenue/expense (net)	(365,180)
Other (net)	424,895
Total non-operating revenues/expenses	59,715
Capital contributions	9,253,974
Transfers	(4,462,373)
Change in net assets	9,540,985
Beginning net assets	143,813,603
Prior period adjustment	(209,083)
Ending net assets	$ 153,145,505

Net cash provided By:		
(a) Operating activities	$	9,601,115
(b) Noncapital financing activities		(4,033,220)
(c) Capital and related financing activities		(7,746,380)
(d) Investing activities		628,181
Beginning cash and investment balance		3,471,398
Ending cash and investment balance	$	1,921,094

18. Prior Period Adjustment

In 2008 the City entered into a professional services agreement for the design of 27 separate water main improvements, totaling over 23,000 feet of water mains. Construction for these projects was not funded in subsequent capital improvement budgets. With no foreseeable future plans to fund these projects, a prior period adjustment in the amount of $209,082 was posted in 2012 to remove the design costs from Work in Progress.

19. Accounting and Reporting Changes

The 2012 financial statements are presented in accordance with the following new GASB Statements:

- 60 – Service Concession Arrangements – not applicable at this time
- 62 – Codification of AICPA and FASB Pronouncements
- 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position
- 64 – Derivative Instruments – not applicable at this time

20. Subsequent Events

On May 23, 2013, the City issued $8,965,000 in limited tax general obligation bonds (non-taxable) to refund the City's outstanding limited tax general obligation note, 2011, in the amount of $8,910,000 maturing on July 29, 2013 associated with the City's parking system. Moody's Investor Services affirmed the City's bond rating of A1 for the 2013 limited tax general obligation refunding bonds (non-taxable).

Also on May 23, 2013, the City issued $5,200,000 in limited tax general obligation bonds (taxable) to refund the City's outstanding limited tax general obligation bonds, 2009, in the amount of $5,058,000 maturing on December 1 of the years 2013 through 2028, inclusive. These bonds are associated with the City's Gold Mountain Golf Complex. The 2009 Bond was held in the City's investment portfolio and may be prepaid at any time. The 2013 Bonds were issued so the City can obtain the benefit of savings in total debt service requirements. Moody's Investor Services affirmed the City's bond rating of A1 for the 2013 limited tax general obligation refunding bonds (taxable).

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

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability Unit Cost	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2008	$ -	$ 16,191,238	$ 16,191,238	0.0%	$ 673,125	2405.38%
12/31/2009	$ -	$ 21,632,822	$ 21,632,822	0.0%	$ 461,567	4686.82%
12/31/2011	$ -	$ 17,942,584	$ 17,942,584	0.0%	$ 341,195	5300.00%

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City of Bremerton

Schedule 16

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2012

Federal Agency Name/ Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
U.S. Dept of Commerce	Investments for Public Works and Economic Development	11.300	07-01-06590		1,544,528	1,544,528	2
U.S Dept of HUD	Community Development Block Grant	14.218	B-11-MC-53-0011		370,355	370,355	5
U.S Dept of HUD	Community Development Block Grant	14.218	Program Income		17,675	17,675	3
			Total CFDA 14.218	**0**	**388,030**	**388,030**	
U.S Dept of HUD	Shelter Plus Care	14.238	WA0099C0T01100 3 -Sponsor		8,587	8,587	
U.S Dept of HUD	Shelter Plus Care	14.238	WA0100C0T01110 4 - Tenant		32,124	32,124	
U.S Dept of HUD	Shelter Plus Care	14.238	WA0098C0T01100 3 - Project		16,144	16,144	
U.S Dept of HUD	Shelter Plus Care	14.238	WA0099C0T01110 4 - Sponsor		79,752	79,752	
U.S Dept of HUD	Shelter Plus Care	14.238	WA0100C0T01100 3 - Tenant		4,700	4,700	
U.S Dept of HUD	Shelter Plus Care	14.238	WA0098C0T01110 4 - Project		16,163	16,163	
			Total CFDA 14.238	**0**	**157,470**	**157,470**	

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

MCAG NO. 0452

City of Bremerton

Schedule 16

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2012

Federal Agency Name/ Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
U.S. Dept. of HUD/Kitsap County	HOME Investment Partnerships Program	14.239	Program Income	60,978		60,978	3
U.S. Dept of the Interior/Recreation and Conservation Office	Land and Water Conservation Fund	15.916	09-1351D	361,171		361,171	2
U.S. Dept of Justice	Bulletproof Vest Partnership	16.607	99002098		2,068	2,068	2
U.S. Dept of Justice	ARRA-Public Safety Partnership & Community Policing (COPS)	16.710	2009-RK-WX-0887		197,438	197,438	
U.S. Dept of Justice	Edward Byrne Memorial Justice Assistance Grant	16.738	2011-DJ-BX-2150		37,724	37,724	
U.S. Dept of Justice	ARRA-BJA FY 2009 Recovery Act Edward Byrne memorial Justice Assistance Grant	16.804	2009-SB-B9-1743		62,161	62,161	
U.S. Dept of Justice	Federal Equitable Sharing	16.922	WA0180100		52,202	52,202	7
U.S. Dept. of Transportation/WA State DOT	Highway Planning and Construction	20.205	HSIP-000S(242)	790,310		790,310	
U.S. Dept. of Transportation/WA State DOT	Highway Planning and Construction	20.205	STPUS-0303(010)	493,479		493,479	2
U.S. Dept. of Transportation/WA State DOT	Highway Planning and Construction	20.205	STPUS-9918(011)	196,945		196,945	2
			Total CFDA 20.205	**1,480,734**	**0**	**1,480,734**	

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

MCAG NO. 0452

City of Bremerton

Schedule 16

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2012

Federal Agency Name/ Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
U.S. Dept of Transportation (NHTSA)/WA Traffic Safety Commission	State and Community Highway Safety	20.600	N/A	4,392		4,392	
U.S. Dept of Transportation (NHTSA)/WA Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive	20.601	N/A	2,219		2,219	
Environmental Protection Agency, Office of Air and Radiation	Climate Showcase Communities Grant	66.041	AF-83452701-0		43,040	43,040	2
Environmental Protection Agency	Puget Sound Watershed Management Assistance	66.120	PO-00J08701-0		179,295	179,295	2
Environmental Protection Agency/Dept. of Ecology	ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	L1000019	43,450		43,450	4
Environmental Protection Agency/Dept. of Ecology	ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	L10S0020	38,648		38,648	
Environmental Protection Agency/Dept. of Ecology	ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	L10S0019	41,011		41,011	
			Total CFDA 66.458	**123,109**	**0**	**123,109**	
Department of Energy/Dept of Commerce	ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	F10-52110-018	3,000		3,000	2
U.S. Dept of Homeland Security/WA Military Dept	Disaster Grants - Public Assistance	97.036	1734-DR-WA	100		100	2
U.S. Dept of Homeland Security/	Assistance to Firefighters	97.044	EMW-2011-FO-06289		92,206	92,206	2
			Total Federal Awards Expended:	**2,035,703**	**2,756,162**	**4,791,865**	

The accompanying notes to the Schedule of Expenditures 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, 2012

NOTE 1- BASIS OF ACCOUNTING

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

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - PROGRAM INCOME

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

NOTE 4 - FEDERAL LOANS

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

NOTE 5 - AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the total amount expended for this program is $291,475 that was passed through to a subrecipient that administered its own project.

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

Expenditures for this program were funded by ARRA.

NOTE 7 - EQUITABLE SHARING PROGRAM

The amount listed represents expenditures during 2012 of funds received through the Asset Forfeiture Program. The remaining balance of funds received through this program at 12/31/12 is $49,481.

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

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

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

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

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

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Deputy Director of State and Local Audit	**Jan M. Jutte, CPA, CGFM**
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