



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements and Federal Single Audit Report

## City of Bremerton

For the period January 1, 2021 through December 31, 2021

*Published September 29, 2022*

Report No. 1031224



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**Office of the Washington State Auditor  
Pat McCarthy**

September 29, 2022

Mayor and City Council  
City of Bremerton  
Bremerton, Washington

**Report on Financial Statements and Federal Single Audit**

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

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

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

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# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## City of Bremerton January 1, 2021 through December 31, 2021

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

#### Financial Statements

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

Internal Control over Financial Reporting:

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

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

#### Federal Awards

Internal Control over Major Programs:

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

We issued an 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 in accordance with 2 CFR 200.516(a).

## Identification of Major Federal Programs

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction
21.027	COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

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

The City did not qualify as a low-risk auditee under the Uniform Guidance.

## SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Finding 2021-001.

# SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

## City of Bremerton January 1, 2021 through December 31, 2021

### 2021-001 The City had inadequate internal controls for ensuring compliance with federal procurement and suspension and debarment requirements.

<b>CFDA Number and Title:</b>	21.027 – COVID-19 – Coronavirus State and Local Fiscal Recovery Funds
<b>Federal Grantor Name:</b>	U.S. Department of the Treasury
<b>Federal Award/Contract Number:</b>	N/A
<b>Pass-through Entity Name:</b>	N/A
<b>Pass-through Award/Contract Number:</b>	N/A
<b>Questioned Cost Amount:</b>	\$0

### *Background*

The purpose of the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) is to support state, local and tribal governments' response to and recovery from the COVID-19 public health emergency. In fiscal year 2021, the City spent \$626,405 in program funds. The City used program funds to pay for its conference center expenses, human resources onboarding software, and police body cameras.

Federal regulations require recipients to establish and maintain internal controls that ensure compliance with program requirements. These controls include understanding program requirements and monitoring the effectiveness of established controls.

### *Procurement*

When using federal funds to procure goods and services, governments must apply the more restrictive of federal requirements, state law, or local policy. Federal and state requirements allow local entities to bypass normal procurement laws through a process commonly referred to as "piggybacking." This process allows entities to purchase goods and services using contracts awarded by another government or

group of governments via an interlocal agreement or cooperative. To comply with piggybacking law, the entity must enter into this interlocal agreement before it purchases goods or services from another entity's contract. If the City uses such an agreement, federal regulations require it to confirm the awarding entity followed all procurement laws and regulations applicable to the City when selecting the contractor. Additionally, the City must purchase goods or services from the contractor that was awarded the contract through the original entity's procurement process in order to make a valid piggybacking transaction.

#### *Suspension and Debarment*

Federal requirements prohibit recipients from contracting with or purchasing from parties suspended or debarred from doing business with the federal government. Whenever the City contracts or purchases goods or services that it expects to equal or exceed \$25,000, paid all or in part with federal funds, it must verify the contractor has not been suspended or debarred or otherwise excluded.

The City may accomplish this verification by collecting a written certification from the contractor, adding a clause or condition into the contract, or checking the System for Award Management (SAM.gov) for exclusion records. The City must perform this verification before awarding the contract or paying the contractor more than \$25,000, and it must maintain documentation demonstrating compliance with this federal requirement.

### ***Description of Condition***

#### *Procurement*

Our audit found the City did not have effective internal controls for ensuring it complied with federal and state procurement requirements for piggybacking. The City's human resources software manufacturer contacted the City offering an additional module to assist with onboarding new employees in a remote work environment. City personnel negotiated directly with the manufacturer to purchase this module at the same price offered through a Washington State Department of Enterprise Services (DES) purchasing cooperative agreement. City staff believed the City could piggyback off the contract because it had an interlocal agreement with DES and the agency had followed all procurement laws applicable to the City when awarding the contract. However, this purchase did not comply with piggybacking requirements because the City did not buy the software from one of the three authorized contractors who were awarded the contract.

We consider this internal control deficiency to be a significant deficiency.

### *Suspension and Debarment*

Our audit also found the City did not have effective internal controls for verifying the suspension and debarment status of contractors for purchases exceeding \$25,000. The City made three purchases from contractors before verifying they were not suspended or debarred.

We consider this internal control deficiency to be a material weakness, which led to material noncompliance.

These issues were not reported as findings in the prior audit.

### ***Cause of Condition***

#### *Procurement*

City personnel did not fully understand piggybacking requirements. They said they were not aware that purchases made through piggybacking must be from the specific contractors awarded under the cooperative agreement.

#### *Suspension and Debarment*

Although City personnel reviewed exclusion records at SAM.gov to check the suspension and debarment status for two of the three contractors, they did not retain supporting documentation demonstrating these checks took place before contractors received payment.

Additionally, City staff were unaware they had to review the status for one contractor with which the City had an existing agreement.

### ***Effect of Condition***

#### *Procurement*

Because the City did not purchase the software through an authorized contractor, it cannot satisfy federal requirements by relying on the procurement process completed by another entity through piggybacking. This software cost \$58,829.

Without effective internal controls, the City cannot ensure it allowed for full and open competition, and complied with applicable federal regulations.

#### *Suspension and Debarment*

The City did not obtain written certifications, insert clauses into contracts, or retain documentation of its review of exclusion records on SAM.gov to show verification

that all three contractors receiving federal funds were not suspended or debarred before contracting or purchasing from them. The City paid these contractors \$296,873 during fiscal year 2021.

Without adequate internal controls, the City cannot ensure the contractors it paid with federal funds are eligible to participate in federal programs. Any program funds the City used to pay contractors that have been suspended or debarred would be unallowable, and the federal grantor could potentially recover them. We subsequently verified the contractors were not suspended or debarred. Therefore, we are not questioning costs.

### ***Recommendation***

We recommend the City:

- Strengthen internal controls to ensure it procures goods and services in accordance with federal regulations, state law, and the City's own procurement policies and procedures
- Establish and maintain internal controls to ensure that all contractors it expects to pay \$25,000 or more, all or in part with federal funds, are not suspended or debarred
- Retain supporting documentation, such as SAM.gov searches, demonstrating compliance with suspension and debarment requirements

### ***City's Response***

*The City of Bremerton appreciates the opportunity to respond to the Washington State Auditor's Office's (SAO) conclusions. The City is committed to establishing and following effective internal controls for administering federal grants and for compliance with federal uniform guidance for grant administration. The City will ensure future goods and services funded by Coronavirus State and Local Fiscal Recovery Funds and other federal funding are procured in accordance with federal regulations. Additionally, the City will ensure documentation is retained verifying contractors were not suspended or debarred before contracting or purchasing with federal funds.*

### ***Auditor's Remarks***

We appreciate the City's quick response and commitment to resolving this finding. We thank it for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

## *Applicable Laws and Regulations*

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303, Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 CFR Part 200, Uniform Guidance, section 318, General procurement standards, establishes requirements for written procedures and requirements for maintaining records sufficient to detail the history of procurement.

Title 2 CFR Part 200, Uniform Guidance, section 320, Methods of procurement to be followed, establishes requirements for procuring with Federal funds by non-federal entities.

Title 2 CFR Part 180, OMB *Guidelines on Agencies on Governmentwide Debarment and Suspension (Nonprocurement)* establishes non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689.



## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### City of Bremerton January 1, 2021 through December 31, 2021

This schedule presents the status of findings reported in prior audit periods.

<b>Audit Period:</b> January 1, 2020 – December 31, 2020	<b>Report Ref. No.:</b> 1029492	<b>Finding Ref. No.:</b> 2020-001
<b>Finding Caption:</b> The City’s internal controls over classifying capital contributions were insufficient for ensuring they were reported in the proper fund.		
<b>Background:</b> Due to an account coding error in the City’s receipting system, wastewater general facility charges were misclassified to the Water fund, and the City did not detect the error in a timely manner. As a result, the City’s 2020 annual financial report submitted for audit contained the following misstatements: <ul style="list-style-type: none"> <li>• Capital contributions were overstated by \$801,729 in the Water fund and understated by \$801,729 in the Wastewater fund.</li> <li>• The City did not report prior period adjustments of negative \$1,824,000 in the Water fund and \$1,824,000 in the Wastewater fund to reflect the revenue misclassifications between 2016 and 2019.</li> </ul> Net position was overstated by \$2,625,729 in the Water fund and understated by \$2,625,729 in the Wastewater fund.		
<b>Status of Corrective Action: (check one)</b> <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
<b>Corrective Action Taken:</b> <i>The City corrected the issue in the permitting system that caused this misclassification. Additionally, the City implemented a reconciliation process for revenues by fund between the permitting system and general ledger system as part of year end processes to ensure general facility charges are properly classified in the financial statements.</i>		

## INDEPENDENT AUDITOR'S REPORT

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

### City of Bremerton January 1, 2021 through December 31, 2021

Mayor and City Council  
City of Bremerton  
Bremerton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bremerton, as of and for the year ended December 31, 2021, 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 26, 2022.

### REPORT ON 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) as a basis for designing 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 above 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 or significant deficiencies may exist that were not identified.

## **REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

## **PURPOSE OF THIS REPORT**

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



Pat McCarthy, State Auditor

Olympia, WA

September 26, 2022

# INDEPENDENT AUDITOR'S REPORT

## Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

### City of Bremerton January 1, 2021 through December 31, 2021

Mayor and City Council  
City of Bremerton  
Bremerton, Washington

## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

### Opinion on Each Major Federal Program

We have audited the compliance of the City of Bremerton, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2021. The City's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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, 2021.

### Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance with the compliance requirements referred to above.

### **Responsibilities of Management for Compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

### **Auditor's Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

Performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed; and

- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2021-001. Our opinion on each major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance 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 and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2021-001 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2021-001 to be a significant deficiency.


### **City's Response to Findings**

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy, State Auditor

Olympia, WA

September 26, 2022

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **City of Bremerton January 1, 2021 through December 31, 2021**

Mayor and City Council  
City of Bremerton  
Bremerton, Washington

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Opinions**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bremerton, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2021, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Residential Street Capital funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This supplementary information 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 26, 2022 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized initial "P".

Pat McCarthy, State Auditor

Olympia, WA

September 26, 2022

**City of Bremerton  
January 1, 2021 through December 31, 2021**

**REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2021

**BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2021

Statement of Activities – 2021

Balance Sheet – Governmental Funds – 2021

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2021

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities – 2021

Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual General Fund – 2021

Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual – Residential Street Capital Fund - 2021

Statement of Net Position – Proprietary Funds – 2021

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2021

Statement of Cash Flows – Proprietary Funds – 2021

Statement of Fiduciary Net Position – Fiduciary Funds – 2021

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2021

Notes to Financial Statements – 2021

**REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3, PSERS, LEOFF 1, LEOFF 2 – 2021

Schedule of Employer Contributions – PERS 1, PERS 2/3, PSERS, LEOFF 2 – 2021

Schedule of Changes in Total OPEB Liability and Related Ratios – LEOFF 1 – 2021

**SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2021

Notes to the Schedule of Expenditures of Federal Awards – 2021

**City of Bremerton  
Management's Discussion and Analysis  
December 31, 2021**

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, 2021. 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 2021, the assets and deferred outflows of the City exceeded its liabilities and deferred inflows by \$320 million. The net investment in capital assets accounts for 84%, or \$269.1 million, of this amount. Restricted net position accounts for another 9%, or \$28.6 million, and is primarily for pension, construction projects, debt service, public safety, and Community Development Block Grant (CDBG) programs, tourism promotion, worker's compensation liability and public safety. The remaining net position of \$22.3 million may be used to meet the City's ongoing obligations to citizens and creditors. As a result of GASB 75 (Other Post Employment Benefit reporting), the unrestricted fund balance on the governmental activities is negative.
- The City's net position increased by \$21.2 million (7%) during the fiscal year. The governmental net position increased by \$8.8 million (9%) and business-type net position increased by \$11.4 million (6%) from the amounts reported in 2020.
- As of December 31, 2021, the City's governmental funds reported a combined fund balance of \$33.5 million, an increase of 37% from the prior year end. The fund balance of the General Fund increased by \$1.7 million while the remaining non-major governmental funds had a fund balance increase of \$2.9 million. The combined governmental fund balances restricted for specific purposes by external parties, enabling legislation or otherwise not available for expenditure is \$8.7 million. Of the remaining \$24.8 million fund balance, \$8.4 million has been committed or assigned for specific purposes, \$31 thousand is for non-spendable inventories and \$16.4 million is unassigned and available to the City for future appropriation.
- At the end of 2021, the unassigned fund balance of the General Fund was \$16.3 million or approximately 43% of total General Fund expenditures of \$42.4 million. The General Fund's unassigned fund balance increased by \$1.5 million from the prior year's amount of \$14.8 million.
- The City's total outstanding debt decreased by \$3.1 million or (13%) during the current fiscal year to \$45.2 million. General obligation debt decreased by \$2.3 million, revenue bond debt decreased by \$1.1 million and revenue loan debt increased \$289 thousand.
- The City's net investment in capital assets increased \$6.8 million overall in 2021. Governmental activities increased \$852 thousand and business activities increased \$5.9 million. Total capital assets from governmental activities decreased \$1.1 million. Total capital assets from business type activities increased \$4.7 million

**Overview of the Financial Statements**

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

## Government-wide Financial Statements

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

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

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

## Fund Financial Statements

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

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

The City maintained twenty-one (21) individual governmental funds in 2021. 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".

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

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

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

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

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

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

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

**Notes to the Financial Statements** provide additional information that is essential to acquire a full understanding of the data provided in the government-wide and fund financial statements and can be found immediately following the basic financial statements of this report.

**Other Information** In addition to the basic financial statements and accompany notes, this report also presents the required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found immediately following the notes to the financial statements of the report.

## Government-wide Financial Analysis

### Statement of Net Position

The statement of net position can serve as a useful indicator of the City's financial position. The City's net position on December 31, 2021 totaled \$320 million. The following is a condensed version of the government-wide statement of net position for the current and the prior fiscal year.

Condensed Statement of Net Position  
As of December 31, 2021 and 2020

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2021	2020	Difference	2021	2020	Difference	2021	2020	Difference
Current Assets	\$ 43,420	\$ 35,309	\$ 8,111	\$ 44,304	\$ 40,061	\$ 4,243	\$ 87,724	\$ 75,370	\$ 12,354
Restricted Assets	8,811	6,889	1,922	1,077	1,245	(168)	9,888	8,134	1,754
Capital Assets	116,347	117,491	(1,144)	198,929	194,200	4,729	315,276	311,691	3,585
Other Noncurrent Assets	36,079	10,935	25,144	5,017	62	4,955	41,096	10,997	30,099
Total assets	204,657	170,624	34,033	249,327	235,568	13,759	453,984	406,192	47,792
Deferred outflows of resources	4,054	4,065	(11)	724	858	(134)	4,778	4,923	(145)
Current Liabilities	15,845	9,592	6,253	5,787	5,745	42	21,632	15,337	6,295
Noncurrent Liabilities	66,366	66,693	(327)	22,927	25,628	(2,701)	89,293	92,321	(3,028)
Total liabilities	82,211	76,285	5,926	28,714	31,373	(2,659)	110,925	107,658	3,267
Deferred inflows of resources	22,337	3,065	19,272	5,491	633	4,858	27,828	3,698	24,130
Net position									
Net Investment in Capital Assets	94,199	93,347	852	174,907	168,988	5,919	269,106	262,335	6,771
Restricted	25,979	17,757	8,222	2,642	1,609	1,033	28,621	19,366	9,255
Unrestricted	(16,015)	(15,764)	(251)	38,297	33,823	4,474	22,282	18,059	4,223
Total Net Position	\$ 104,163	\$ 95,340	\$ 8,823	\$ 215,846	\$ 204,420	\$ 11,426	\$ 320,009	\$ 299,760	\$ 20,249

The largest component of the City's net position is the \$269 million investment in capital assets reduced for any related outstanding debt issued to acquire those assets. These capital assets, such as utility plant, streets, trails, parks, fire and police vehicles, are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

Restricted net position consists of amounts legally or otherwise externally restricted for debt service and other programs. Of the \$28.6 million of governmental restrictions, \$18.1 million or 63% is restricted for pension, \$7.7 million or 27% is restricted for the construction of capital assets and \$1.2 million or 4% is restricted for debt service. The remaining 5% is comprised of public safety, community development block grant, Public Access Television, tourism promotion and workers compensation.

A total of \$38.3 million represents the unrestricted net position of the City's business-type activities and may only be spent on golf course operations, water, wastewater and other utility activities. Maintenance of utility delivery systems such as water lines, pump station, wells, storm drain flushing, water meter reading, and capital construction projects, such as well rehabilitation, are examples of utility activities.

At the end of the fiscal year, the City reported positive balances in all three categories of net position for the government as a whole. Governmental activities reported a negative unrestricted fund balance of \$(16) million due to GASB 68, *Accounting and Financial Reporting for Pensions* and GASB 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*.

## 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 increased by \$20.2 million. Governmental activities increased \$8.8 million, and the net position of business-type activities increased by \$11.4 million. The following is a condensed version of the government-wide statement of changes in net position for the current and the prior fiscal year.

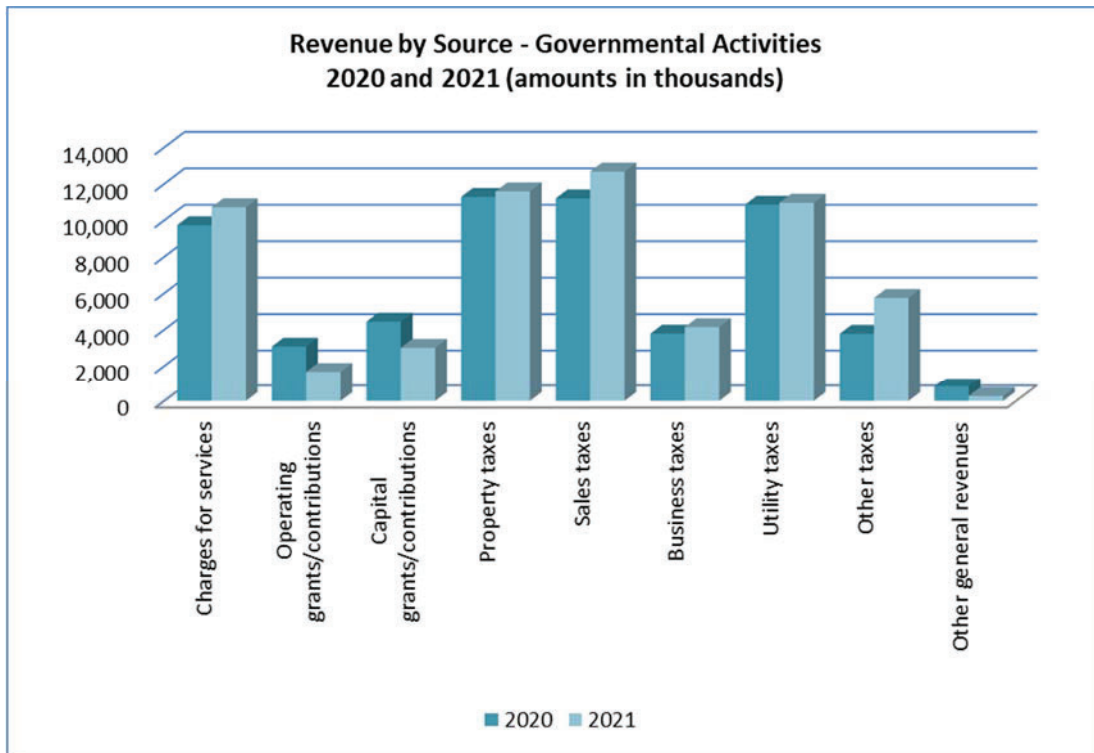
Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2021	2020	Difference	2021	2020	Difference	2021	2020	Difference
<b>Revenues</b>									
<b>Program revenues</b>									
Charges for services	\$ 10,723	\$ 9,739	\$ 984	\$ 42,378	\$ 39,726	\$ 2,652	\$ 53,101	\$ 49,465	\$ 3,636
Operating grants/contributions	1,680	3,078	(1,398)	-	-	-	1,680	3,078	(1,398)
Capital grants/contributions	2,986	4,452	(1,466)	6,250	5,385	865	9,236	9,837	(601)
<b>General revenues</b>									
Property taxes	11,610	11,292	318	-	-	-	11,610	11,292	318
Sales taxes	12,676	11,209	1,467	88	65	23	12,764	11,274	1,490
Business taxes	4,147	3,791	356	12	8	4	4,159	3,799	360
Utility taxes	10,972	10,867	105	-	-	-	10,972	10,867	105
Other taxes	5,751	3,779	1,972	-	-	-	5,751	3,779	1,972
Other general revenues	266	812	(546)	(22)	546	(568)	244	1,358	(1,114)
<b>Total revenues</b>	<b>\$ 60,811</b>	<b>\$ 59,019</b>	<b>\$ 1,792</b>	<b>\$ 48,706</b>	<b>\$ 45,730</b>	<b>\$ 2,976</b>	<b>\$ 109,517</b>	<b>\$ 104,749</b>	<b>\$ 4,768</b>
<b>Expenses</b>									
General government	4,706	5,670	(964)	-	-	-	4,706	5,670	(964)
Public safety	30,232	32,259	(2,027)	-	-	-	30,232	32,259	(2,027)
Transportation	8,041	8,034	7	-	-	-	8,041	8,034	7
Economic environment	2,670	3,068	(398)	-	-	-	2,670	3,068	(398)
Culture and recreation	5,473	5,149	324	-	-	-	5,473	5,149	324
Interest on long-term debt	791	808	(17)	-	-	-	791	808	(17)
Water	-	-	-	12,721	13,582	(861)	12,721	13,582	(861)
Wastewater	-	-	-	15,673	15,312	361	15,673	15,312	361
Golf course	-	-	-	5,275	4,195	1,080	5,275	4,195	1,080
Stormwater	-	-	-	4,098	4,112	(14)	4,098	4,112	(14)
<b>Total expenses</b>	<b>\$ 51,913</b>	<b>\$ 54,988</b>	<b>\$ (3,075)</b>	<b>\$ 37,767</b>	<b>\$ 37,201</b>	<b>\$ 566</b>	<b>\$ 89,680</b>	<b>\$ 92,189</b>	<b>\$ (2,509)</b>
Change in net position before transfers	8,898	4,031	4,867	10,939	8,529	2,410	19,837	12,560	7,277
Transfers	(75)	(303)	228	75	303	(228)	-	-	-
<b>Change in net position</b>	<b>8,823</b>	<b>3,728</b>	<b>5,095</b>	<b>11,014</b>	<b>8,832</b>	<b>2,182</b>	<b>19,837</b>	<b>12,560</b>	<b>7,277</b>
Net position - beginning	95,340	91,612	3,728	204,420	195,588	8,833	299,760	287,200	12,561
Prior Period	-	-	-	412	-	412	412	-	412
<b>Net position - ending</b>	<b>\$ 104,163</b>	<b>\$ 95,340</b>	<b>\$ 8,823</b>	<b>\$ 215,846</b>	<b>\$ 204,420</b>	<b>\$ 11,427</b>	<b>\$ 320,009</b>	<b>\$ 299,760</b>	<b>\$ 20,250</b>

### Governmental activities

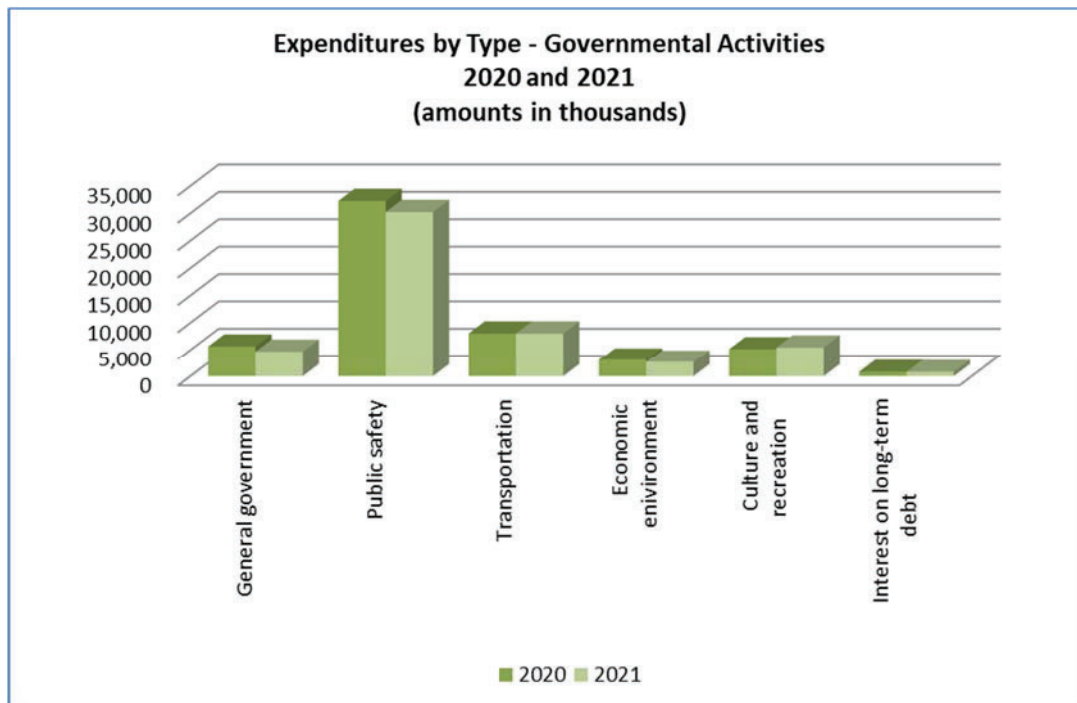
Significant elements of the increase are as follows:

- The City sales tax revenue increased \$1.467 million. Both operating grants and contributions and capital grants and contributions for governmental activities each decreased \$1.4 million.
- The City had a \$1.972 million increase in other taxes, of which \$1.515 million is solely due to increase in real estate excise tax.
- The City's overall expenditures decreased 3% in 2021 compared to 2020, as the City continues efforts to match expenses to available resources. Public Safety had the largest decrease, recognizing a \$2.027 million decrease from the prior year.

The following graph is the governmental activities revenues by source for the current and the prior fiscal year.



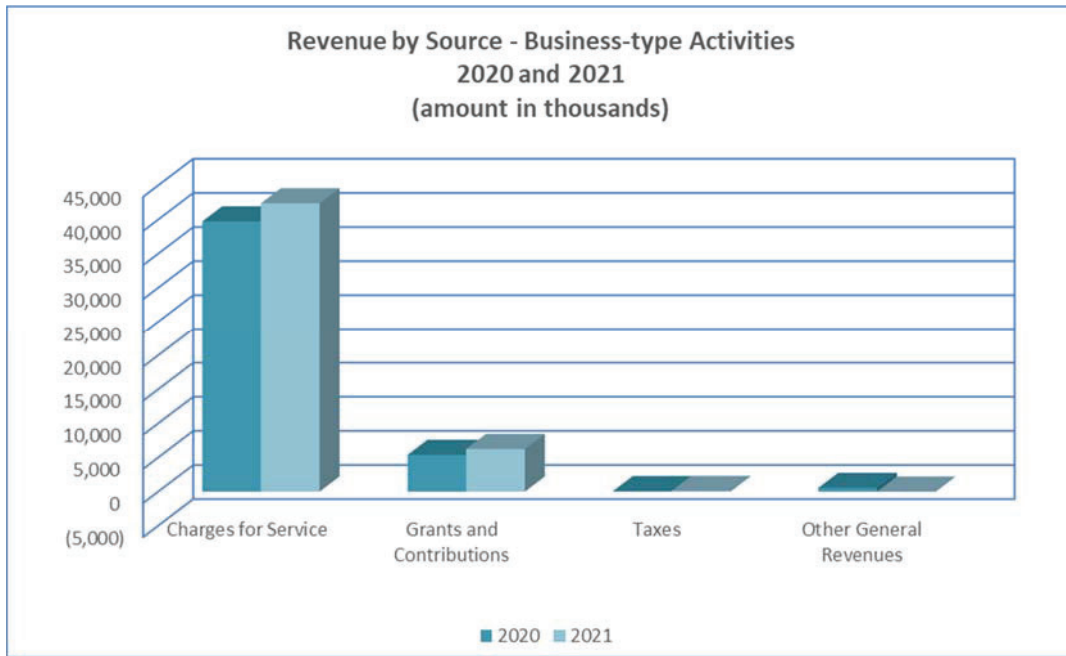
The following graph is the governmental activities expenditures by type for the current and the prior fiscal year.



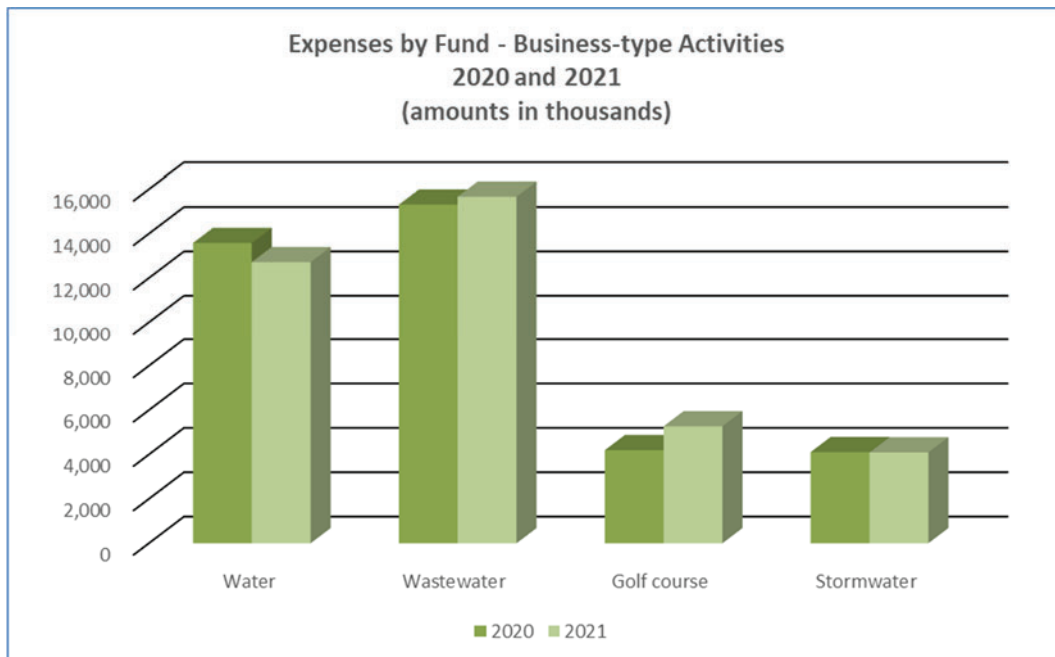
***Business-type activities***

- The significant change in fund balance can be mainly attributed to capital asset additions and reduction in expenses (attributable to recognized reduction in pension expense per GASB 68). The utilities remained consistent from the prior year.
- The charges for services for business activities increased \$2.652 million, of which \$1.235 million is from the stormwater fund, \$675 thousand from water and \$484 thousand from wastewater.

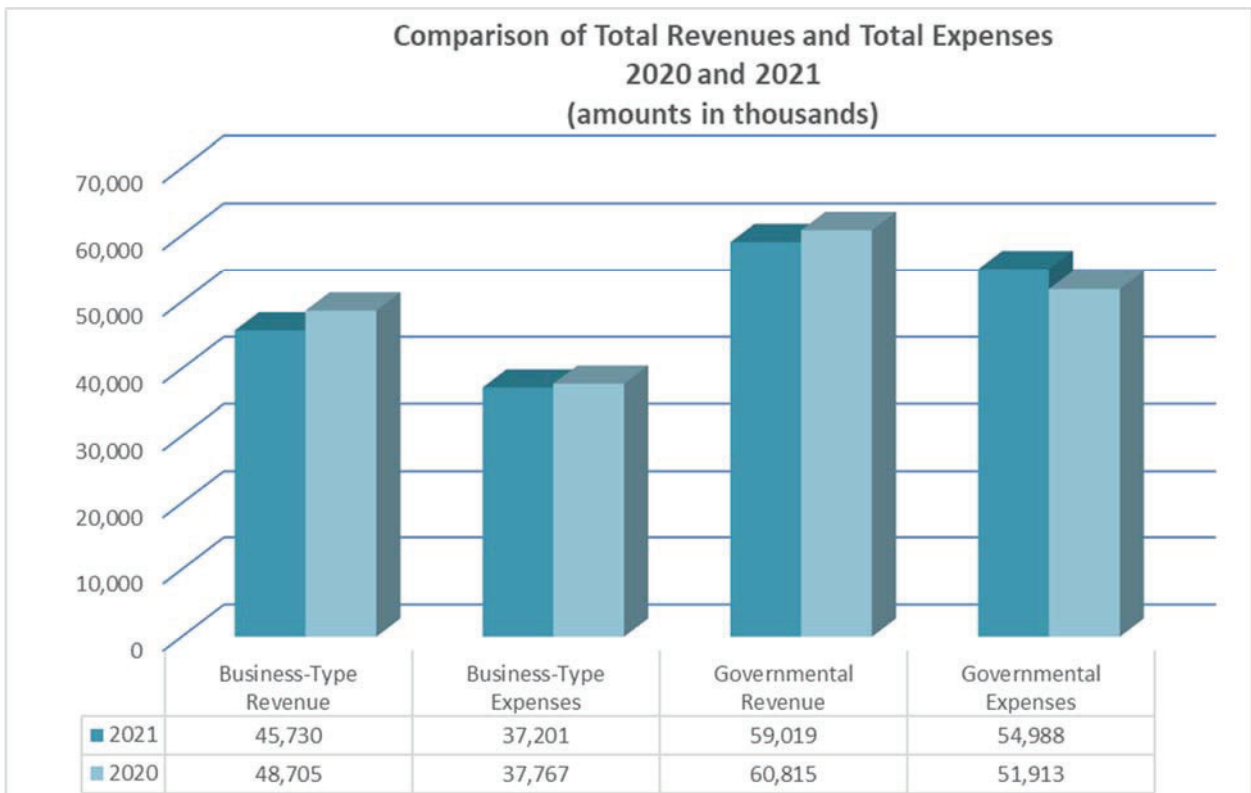
The following graph is the business-type activities revenues by source for the current and the prior fiscal year.



The following graph is the business-type activities expenses by fund for the current and the prior fiscal year.



The following graph is the total revenue and total expense for the current and the prior fiscal year for both governmental activities and business-type activities.



### Financial Analysis of the City's Funds

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

#### Governmental funds

The General Fund is the primary operating fund of the City through which all receipts and payments of City operations are processed unless they are required to be accounted for in another fund. Taxes are the major revenue source. At the end of 2021, the fund balance of the General Fund was \$18.2 million. As a measure of the fund's liquidity, the 2021 ending fund balance is 43% of the fund's 2021 expenditures, an increase of 2% over 2020's 41%.

The General Fund ending fund balance increased in 2021 by \$1.7 million. Revenues increased from \$42 million in 2020 to \$44.8 million in 2021. Expenditures increased from \$40.4 million in 2020 to \$42.4 million in 2021. Public Safety had the largest increase in expense of about \$2.4 million.

#### Proprietary funds

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

## General Fund Budget Variations

The General Fund collected revenues at 88% of the amended amount budgeted or \$6.1 million less than budgeted. Expenditures for 2021 were 78% of the amended budget resulting in actual expenditures being \$12.1 million less than the budgeted amount. The positive expenditure budget variance is largely attributable to savings in budgeted personnel.

The General Fund budget was balanced in 2021. The original budget provided for a decrease to the fund balance of \$4.2 million. The budget was amended two times during 2021. The final amended budget provided for a decrease to fund balance of \$4.8 million. At the conclusion of 2021, 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, 2021, amounts to \$315.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, construction in progress, utility transmission/distribution systems, roads, and intangibles.

The major capital asset additions for governmental activities during 2021 include parks projects, facilities project and various street improvements totaling \$3.962 million. Specifically, the City worked on the following during the year:

- Warren Avenue Playfield Renovation - \$116,970
- Kitsap Lake Park Renovation - \$78,530
- Fire Station #2 Remodel - \$209,654.72
- Fire Station #3 Remodel - \$210,402.24
- Residential Street Curb Ramp and Sidewalk - \$64,664
- Kitsap Lake Safe Routes to School - \$544,288
- 6<sup>th</sup> Street Preservation, Warren to Pacific - \$788,312
- Washington and 11<sup>th</sup> Roundabout - \$304,713
- Downtown Bike Improvements - \$381,212

The major capital assets changes for business-type activities included the construction of wastewater and water capital improvement projects identified within the City's 2021 capital improvement plan.

Capital Assets (net of depreciation)  
As of December 31, 2021 and 2020

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2021	2020	Difference	2021	2020	Difference	2021	2020	Difference
Land	\$ 20,374	\$ 20,174	\$ 200	\$ 9,882	\$ 9,882	\$ -	\$ 30,256	\$ 30,056	\$ 200
Buildings	42,654	43,398	(744)	30,936	32,063	(1,127)	73,590	75,461	(1,871)
Improvements other than Buildings	6,954	7,119	(165)	111,383	112,517	(1,134)	118,337	119,636	(1,299)
Machinery and Equipment	4,088	4,475	(387)	32,558	33,667	(1,109)	36,646	38,142	(1,496)
Infrastructure	32,803	34,993	(2,190)	-	-	-	32,803	34,993	(2,190)
Construction in Progress	9,469	7,326	2,143	13,954	5,847	8,107	23,423	13,173	10,250
Intangibles	5	5	-	216	225	(9)	221	230	(9)
<b>Total</b>	<b>\$ 116,347</b>	<b>\$ 117,490</b>	<b>\$ (1,143)</b>	<b>\$ 198,929</b>	<b>\$ 194,201</b>	<b>\$ 4,728</b>	<b>\$ 315,276</b>	<b>\$ 311,691</b>	<b>\$ 3,585</b>

## Long-term Debt

At the end of 2021, the City had general obligation bonds, revenue bonds and revenue loans.

Long-term Debt  
As of December 31, 2021 and 2020

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2021	2020	Difference	2021	2020	Difference	2021	2020	Difference
General Obligation Bonds	\$ 22,225	\$ 24,225	\$ (2,000)	\$ 2,635	\$ 2,965	\$ (330)	\$ 24,860	\$ 27,190	\$ (2,330)
Revenue Bonds	-	-	-	11,275	12,370	(1,095)	11,275	12,370	(1,095)
Revenue Loans	-	-	-	9,019	8,730	289	9,019	8,730	289
<b>TOTAL</b>	<b>\$ 22,225</b>	<b>\$ 24,225</b>	<b>\$ (2,000)</b>	<b>\$ 22,929</b>	<b>\$ 24,065</b>	<b>\$ (1,136)</b>	<b>\$ 45,154</b>	<b>\$ 48,290</b>	<b>\$ (3,136)</b>

The \$2.33 million decrease in government-wide general obligation bonds debt and the \$1.095 million decrease in revenue bonds was due annual debt payments. The \$289 thousand increase in revenue loans were due to annual debt payments of \$1.55 million partially offset by an increase in revenue loans of \$1.84 million for two wastewater and two stormwater capital projects. Additional information on the City's long-term debt can be found in Note 9 of this report.

## Economic Factors and Next Year's Budgets and Rates

Several factors that affect the economic climate in Bremerton were considered when preparing the City's 2021 annual budget. The outlook for the nation, state and region was weighed in relation to its expected impact on Bremerton. The character of the City, including its current and future business activity and its attraction as a place to live, was evaluated. The national, regional and local economic conditions continued to show growth during 2020 and 2021 despite the impacts from the COVID-19 pandemic.

Over the past several years, Bremerton has been successful in attracting state and federal grant funds for major transportation improvement projects in 2021 the City was awarded multiple state and federal grants. Future outside funding opportunities will be highly competitive and Bremerton, due to its current economic demographics, should compete very well for certain projects.

The City has seen significant growth in public and private investment in the City over the past several years. Continued investment in this multi-year effort includes the construction or renovation of facilities to provide city services, the reconstruction of 2 parks (Manette Park and Warren Ave Playfield) and the renovation of several transportation and utility projects are all designed to improve the lives of city residents. Private investment has included the construction of the 606 and Spyglass apartments Marina Square, Burwell Apartments and other locally owned businesses. Additionally, there are other projects underway, including new commercial buildings for business and recreational purposes as well as new single family and multifamily residential projects.

The City adopted a rate analysis in 2013 that forecasts increases over a six-year outlook for its Water, Wastewater and Stormwater systems. Rates have been increased gradually from 2014 to 2021 to keep up with the funding requirements of the utilities. The analysis anticipated the issuance of up to a maximum of \$35 million in revenue bonds over six years. In 2016 the City issued \$7.855 million in Revenue bonds to finance identified capital improvements. Currently additional bonding is not being considered in 2021 for the Utilities.

## Requests for information

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

**City of Bremerton**  
**Statement of Net Position**  
**December 31, 2021**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current assets:			
Cash & cash equivalents	\$ 20,073,155	\$ 23,934,460	\$ 44,007,615
Investments	13,501,151	13,810,235	27,311,386
Receivables	7,337,722	4,612,893	11,950,615
Internal balances	178,249	155,436	333,685
Due from other governments	1,652,335	3,432	1,655,767
Inventories	122,767	1,746,275	1,869,042
Other assets	554,821	41,568	596,389
Restricted assets:			
Cash & cash equivalents	6,613,681	437,098	7,050,779
Investments	2,101,298	640,293	2,741,591
Receivables	4,064	-	4,064
Due from other governments	91,749	-	91,749
Notes and contracts receivable:			
Due in more than one year	-	61,700	61,700
Capital assets not being depreciated	29,848,298	23,953,549	53,801,847
Capital assets net of depreciation	86,498,875	174,974,993	261,473,868
Net pension asset	36,079,130	4,955,164	41,034,294
Total assets	<u>\$ 204,657,295</u>	<u>\$ 249,327,096</u>	<u>\$ 453,984,391</u>
<b>Deferred outflows of resources</b>			
Deferred amount on refunding	\$ 684,814	\$ -	\$ 684,814
Deferred amount related to OPEB	532,212	-	532,212
Deferred amount related to pension	2,837,046	724,122	3,561,168
<b>Total deferred outflow of resources</b>	<u>\$ 4,054,072</u>	<u>\$ 724,122</u>	<u>\$ 4,778,194</u>
<b>Liabilities</b>			
Accounts payable and other current liabilities	\$ 2,850,869	\$ 1,732,406	\$ 4,583,275
Employee wages payable	1,176,859	520,672	1,697,531
Other accrued liabilities	1,372,289	399,477	1,771,766
Performance bonds & deposits payable	1,409,421	558,805	1,968,226
Unearned revenue, ARPA	4,799,296	-	4,799,296
Unearned revenue	-	329,230	329,230
Current portion of long term debt	2,065,000	2,247,228	4,312,228
Current portion of OPEB liability	2,171,522	-	2,171,522
Noncurrent liabilities			
Net pension liability	617,560	802,771	1,420,331
Total OPEB liability	41,258,912	-	41,258,912
Due in more than one year	24,489,773	22,123,883	46,613,656
Total liabilities	<u>\$ 82,211,501</u>	<u>\$ 28,714,472</u>	<u>\$ 110,925,973</u>
<b>Deferred inflows of resources</b>			
Deferred amount grants received in advance	\$ 40,900	\$ -	\$ 40,900
Deferred amount related to pension	22,296,107	5,491,159	27,787,266
<b>Total deferred inflows of resources</b>	<u>\$ 22,337,007</u>	<u>\$ 5,491,159</u>	<u>\$ 27,828,166</u>
<b>Net Position</b>			
Net investment in capital assets	\$ 94,198,875	\$ 174,906,968	\$ 269,105,843
Restricted for:			
Tourism promotion & facilities	420,522	-	420,522
Community development block grant	62,066	-	62,066
Public safety	728,488	-	728,488
Public Access Television	237,326	-	237,326
Court improvement	100,247	-	100,247
Debt service	143,961	1,077,391	1,221,352
Capital projects	7,021,146	666,693	7,687,839
Workers compensation	100,000	-	100,000
Pension	17,165,716	897,418	18,063,134
Unrestricted	(16,015,489)	38,297,117	22,281,628
Total Net Position	<u>\$ 104,162,858</u>	<u>\$ 215,845,587</u>	<u>\$ 320,008,445</u>

See accompanying notes to the financial statements.

**City of Bremerton  
Statement of Activities  
For the Year Ended December 31, 2021**

Function/Program	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 4,705,926	\$ 545,962	\$ 59,772	\$ -	\$ (4,100,192)	\$ -	\$ (4,100,192)
Public safety	30,231,514	3,446,218	931,499	-	(25,853,797)	-	(25,853,797)
Transportation	8,041,066	3,047,398	-	2,366,221	(2,627,447)	-	(2,627,447)
Economic environment	2,669,710	2,201,567	688,358	-	220,215	-	220,215
Culture and recreation	5,472,608	1,481,533	-	620,738	(3,370,337)	-	(3,370,337)
Interest on long-term debt	792,486	-	-	-	(792,486)	-	(792,486)
Total governmental activities	51,913,310	10,722,678	1,679,629	2,986,959	(36,524,044)	-	(36,524,044)
Business-type activities							
Water	12,721,200	15,155,517	-	3,425,693	-	5,860,010	5,860,010
Wastewater	15,672,702	16,454,900	-	2,103,207	-	2,885,405	2,885,405
Stormwater	4,097,731	4,727,955	-	707,473	-	1,337,697	1,337,697
Golf course	5,275,483	6,039,810	-	13,961	-	778,288	778,288
Total business-type activities	37,767,116	42,378,182	-	6,250,334	-	10,861,400	10,861,400
Total government	\$ 89,680,426	\$ 53,100,860	\$ 1,679,629	\$ 9,237,293	\$ (36,524,044)	\$ 10,861,400	\$ (25,662,644)
General Revenues							
Taxes:							
Property					11,610,272	-	11,610,272
Sales					12,675,943	87,559	12,763,502
Business					4,146,853	12,189	4,159,042
Utility					10,971,785	-	10,971,785
Other					5,750,710	-	5,750,710
Unrestricted investment interest					(8,501)	(22,643)	(31,144)
Miscellaneous (surplus, rebates, unclaimed assets, etc.)					260,645	-	260,645
Gain on disposal of capital assets					14,097	-	14,097
Transfers, internal activities					(75,000)	75,000	-
Total general revenues and transfers					45,346,804	152,105	45,498,909
Change in net position					8,822,761	11,013,505	19,836,266
Net position, beginning of year					95,340,097	204,419,697	299,759,794
Prior period adjustment (Note 1B)					-	412,385	412,385
Net position, end of year					\$ 104,162,858	\$ 215,845,587	\$ 320,008,445

See accompanying notes to the financial statements.

**City of Bremerton  
Balance Sheet  
Governmental Funds  
December 31, 2021**

	General	Residential Street Capital	Other Governmental Funds	Total Governmental Funds
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
Cash and equivalents	\$ 13,995,177	\$ 1,983,657	\$ 1,581,505	\$ 17,560,339
Investments	8,397,362	1,180,302	2,368,594	11,946,258
Restricted cash	130,197	-	6,383,484	6,513,681
Restricted investments	-	-	2,101,298	2,101,298
Receivables, net	5,605,046	48,292	1,645,455	7,298,793
Restricted receivables	-	-	4,064	4,064
Due from other governments	43,883	-	1,608,450	1,652,333
Restricted due from other governments	-	-	91,749	91,749
Due from other funds	1,785,530	56,434	4,668,825	6,510,789
Inventories	31,000	-	-	31,000
Other assets	-	-	301,935	301,935
Total assets	<u>29,988,195</u>	<u>3,268,685</u>	<u>20,755,359</u>	<u>54,012,239</u>
Deferred outflows of resources	-	-	-	-
Total assets and deferred outflows of resources	<u>\$ 29,988,195</u>	<u>\$ 3,268,685</u>	<u>\$ 20,755,359</u>	<u>\$ 54,012,239</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Liabilities:				
Accounts/contracts payable	\$ 894,812	\$ 5,668	\$ 1,284,006	\$ 2,184,486
Due to other funds	1,576,207	3,263,017	2,102,251	6,941,475
Due to other governments	8,960	-	-	8,960
Employee wages payable	1,015,481	-	111,209	1,126,690
Performance bonds & deposits payable	97,459	-	1,311,962	1,409,421
Unearned revenue - ARPA Grant Advance	4,799,296	-	-	4,799,296
Unearned revenue - Court, Parking & Citations	2,015,519	-	491,699	2,507,218
Total liabilities	<u>10,407,734</u>	<u>3,268,685</u>	<u>5,301,127</u>	<u>18,977,546</u>
Deferred inflows of resources:				
Deferred amount grants received-in-advance	9,520	-	31,380	40,900
Deferred amount for property taxes	280,195	-	3,534	283,729
Deferred amount for derived taxes	1,111,871	-	107,596	1,219,467
Total deferred inflows of resources	<u>1,401,586</u>	<u>-</u>	<u>142,510</u>	<u>1,544,096</u>
Total liabilities and deferred inflows of resources	<u>\$ 11,809,320</u>	<u>\$ 3,268,685</u>	<u>\$ 5,443,637</u>	<u>\$ 20,521,642</u>
Fund balances:				
Nonspendable	\$ 31,000	\$ -	\$ -	\$ 31,000
Restricted	130,197	-	8,583,560	8,713,757
Committed	1,647,980	-	3,152,896	4,800,876
Assigned	-	-	3,575,267	3,575,267
Unassigned	16,369,698	-	-	16,369,698
Total fund balances	<u>18,178,875</u>	<u>-</u>	<u>15,311,723</u>	<u>33,490,598</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 29,988,195</u>	<u>\$ 3,268,685</u>	<u>\$ 20,755,360</u>	<u>\$ 54,012,240</u>
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.				116,321,123
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.				42,596,351
Internal service funds are used by management to charge the costs of certain activities to individual funds. These assets and liabilities are included in governmental activities in the statement of assets.				2,627,135
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.				(90,872,349)
Net position of governmental activities				<u>\$ 104,162,858</u>

See accompanying notes to the financial statements.

**City of Bremerton**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2021**

	<u>General Fund</u>	<u>Residential Streets Capital</u>	<u>Other Governmental Funds</u>	<u>Governmental Funds Total</u>
<b>REVENUES</b>				
Taxes				
Property	\$ 10,210,494	\$ -	\$ 1,452,983	\$ 11,663,477
Sales	12,275,378	-	990,201	13,265,579
Business	13,334,817	476,019	476,019	14,286,855
Other	77,217	610,416	4,525,320	5,212,953
Licenses and permits	1,713,842	125,000	264,310	2,103,152
Intergovernmental	3,049,400	-	4,088,399	7,137,799
Charges for services	2,827,231	-	304,151	3,131,382
Fines and forfeitures	1,163,385	-	327,944	1,491,329
Miscellaneous (leases, rentals, judgements & settlements)	204,964	(1,723)	2,212,476	2,415,717
Total revenues	<u>\$ 44,856,728</u>	<u>\$ 1,209,712</u>	<u>\$ 14,641,803</u>	<u>\$ 60,708,243</u>
<b>EXPENDITURES</b>				
Current:				
General government	\$ 6,738,539	\$ -	\$ 478,864	\$ 7,217,403
Public safety	28,923,110	-	213,573	29,136,683
Utilities and environment	79,333	-	-	79,333
Transportation	707,800	566,258	4,698,575	5,972,633
Economic environment	2,071,083	-	498,730	2,569,813
Mental/physical health	162,621	-	-	162,621
Culture and recreation	3,702,399	-	569,226	4,271,625
Debt service:				
Principal	-	-	2,057,906	2,057,906
Interest and other costs	397	-	703,916	704,313
Capital outlay	59,740	64,664	3,770,822	3,895,226
Total expenditures	<u>\$ 42,445,022</u>	<u>\$ 630,922</u>	<u>\$ 12,991,612</u>	<u>\$ 56,067,556</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 2,411,706</u>	<u>\$ 578,790</u>	<u>\$ 1,650,191</u>	<u>\$ 4,640,687</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Insurance recoveries & surplus	4,916	-	3,905	8,821
Transfers in	417,843	5,324	5,295,916	5,719,083
Transfers out	(1,116,803)	(3,152,329)	(1,524,952)	(5,794,084)
Total other financing sources and uses	<u>\$ (694,044)</u>	<u>\$ (3,147,005)</u>	<u>\$ 3,774,869</u>	<u>\$ (66,180)</u>
Net change in fund balances	\$ 1,717,662	\$ (2,568,215)	\$ 5,425,060	\$ 4,574,507
Fund balances-beginning	16,461,213	2,568,215	9,886,663	28,916,091
Fund balances-ending	<u>\$ 18,178,875</u>	<u>\$ -</u>	<u>\$ 15,311,723</u>	<u>\$ 33,490,598</u>

See accompanying notes to the financial statements.

**City of Bremerton**  
**Reconcillation of the Statement of Revenues,**  
**Expenditures and Changes in Fund Balance of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended December 31, 2021**

Net change in fund balances – total government funds \$ 4,574,507

Amounts reported for governmental activities in the statement of activities differ from the amounts reported in the governmental fund statement because:

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.

Capital outlay	3,962,823	
Depreciation expense	(5,077,957)	
Capital asset disposals	(13,372)	
		(1,128,506)

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. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Repayment of bond principal	2,000,000	
Amortized premium on refunding	83,552	
Amortized deferred amount on refunding	(87,795)	
		1,995,757

Revenues and expenses in the statement of activities that do not provide current financial resources are not reported in the governmental funds.

Compensated absences	(17,154)	
Deferred revenues	(359,761)	
Interest receivable	(16,082)	
Interest payable	(26,024)	
		(419,021)

Pension and other postemployment benefits (OPEB) reporting are not reported in the governmental funds.

Pension expense adjustment	7,212,896	
Pension LEOFF 2 Special Revenue	456,570	
OPEB expense adjustment	(4,107,786)	
		3,561,680

Internal service funds are used by management to charge the costs of fleet maintenance and risk management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.

Net revenue (loss) of internal service funds	238,344	
		238,344

Change in net position of governmental activities \$ 8,822,761

**City of Bremerton**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual General Fund**  
**For the Year Ended December 31, 2021**

	Original Budget 2021	Final Budget 2021	Actual 2021	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 33,533,194	\$ 33,533,194	\$ 35,897,906	\$ 2,364,712
Licenses and permits	1,388,550	1,388,550	1,713,842	325,292
Intergovernmental	1,979,196	6,862,797	2,614,400	(4,248,397)
Charges for services	6,326,365	6,326,365	2,227,857	(4,098,508)
Fines and forfeitures	995,900	995,900	1,163,385	167,485
Other revenues	857,500	1,014,325	377,684	(636,641)
Total revenues	<u>45,080,705</u>	<u>50,121,131</u>	<u>43,995,076</u>	<u>(6,126,055)</u>
<b>EXPENDITURES</b>				
City Council	408,565	408,565	100,416	308,149
Executive	347,522	347,522	319,030	28,492
Finance	1,617,903	1,617,903	721,499	896,404
Legal	1,641,515	1,752,515	879,959	872,556
Human Resources	755,885	791,157	437,536	353,621
Community Development	2,837,380	2,919,380	2,319,357	600,023
Municipal Court	1,527,581	1,527,581	1,512,559	15,022
City Auditor	95,315	115,209	109,837	5,372
Law Enforcement	12,775,572	13,039,782	11,965,900	1,073,882
Fire/Emergency Medical Services	12,086,411	12,521,411	11,918,471	602,940
Police & Fire pension	1,886,400	1,886,400	1,776,703	109,697
Facilities	1,938,475	1,987,384	1,147,447	839,937
Parks and Recreation	3,207,834	3,207,834	3,027,834	180,000
Engineering	3,051,152	3,162,302	726,693	2,435,609
Non-departmental	5,117,634	9,651,563	5,829,430	3,822,133
Total expenditures	<u>49,295,144</u>	<u>54,936,508</u>	<u>42,792,672</u>	<u>12,143,836</u>
Excess (deficiency) of revenues over expenditures	<u>(4,214,439)</u>	<u>(4,815,377)</u>	<u>1,202,404</u>	<u>6,017,781</u>
Fund balances-beginning	12,628,642	15,067,208	15,067,208	-
Fund balances-ending	<u>\$ 8,414,203</u>	<u>\$ 10,251,831</u>	<u>\$ 16,269,612</u>	<u>\$ 6,017,781</u>

Amounts reported for actual expenses is different because of the consolidation of Contingency Reserve and Conference Center activity included in the General Fund of the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental funds:

Conference Center Fund Balance-Beginning	\$ (124,448)
Conference Center Charges for Services Revenue	675,820
Conference Center ARPA Funding	435,000
Conference Center Other Revenues	353,811
Conference Center Operating Expenses	(1,078,900)
Contingency Reserve Fund Balance-Beginning	1,518,452
Contingency Reserve Other Revenues	129,528
<b>Fund Balances Ending for General Fund of the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental funds.</b>	<b><u>\$ 18,178,875</u></b>

<b>EXPENDITURES</b>				
Personnel	35,434,800	35,669,869	30,296,538	5,373,331
Supplies, services & taxes	11,961,844	17,332,180	11,087,250	6,244,930
Capital expenditure	540,000	553,550	58,780	494,770
Transfers	1,358,500	1,358,500	1,350,103	8,397
Total expenditures	<u>49,295,144</u>	<u>54,914,099</u>	<u>42,792,672</u>	<u>12,121,427</u>

**Residential Street Capital Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended December 31, 2021**

	<b>Original Budget 2021</b>	<b>Final Budget 2021</b>	<b>Actual 2021</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Taxes	\$ 1,091,301	\$ 1,091,301	\$ 1,086,435	\$ (4,866)
Licenses and permits	125,000	125,000	125,000	-
Intergovernmental	10,000	10,000	-	(10,000)
Other revenue	\$ 115,000	\$ 115,000	\$ (1,723)	\$ (116,723)
Total revenues	<u>1,341,301</u>	<u>1,341,301</u>	<u>1,209,712</u>	<u>(131,589)</u>
<b>EXPENDITURES</b>				
Personnel	238,200	238,200	169,985	68,215
Supplies, services & taxes	824,228	824,228	396,273	427,955
Capital expenditure	376,000	376,000	64,664	311,336
Transfers	-	2,471,089	3,147,005	(675,916)
Total expenditures	<u>1,438,428</u>	<u>3,909,517</u>	<u>3,777,927</u>	<u>131,590</u>
Excess (deficiency) of revenues over expenditures	<u>(97,127)</u>	<u>(2,568,216)</u>	<u>(2,568,215)</u>	<u>1</u>
Fund balances-beginning	2,323,199	2,568,216	2,568,215	(1)
Fund balances-ending	<u>\$ 2,226,072</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**City of Bremerton**  
**Statement of Net Position**  
**Proprietary Funds**  
**December 31, 2021**

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Stormwater	Total	Internal Service Funds
<b>ASSETS AND DEFERRED OUTFLOWS</b>						
Current assets:						
Cash and cash equivalents	\$ 12,071,840	\$ 1,435,074	2,912,178	\$ 4,368,371	\$ 20,787,463	\$ 5,659,813
Restricted cash	58,682	-	378,416	-	437,098	100,000
Investments	7,109,362	853,888	1,392,100	2,582,380	11,937,730	3,427,398
Restricted investments	85,961	-	554,332	-	640,293	-
External receivables	1,470,867	128,831	2,238,938	738,203	4,576,839	-
Interest receivables	17,952	2,130	4,856	6,443	31,381	8,551
Due from other funds	399,251	-	5,621,471	207,727	6,228,449	1,227,933
Due from other governments	-	-	-	3,432	3,432	-
Inventories	852,085	264,408	629,782	-	1,746,275	91,767
Prepayments	-	41,568	-	-	41,568	252,885
Total current assets	22,066,000	2,725,899	13,732,073	7,906,556	46,430,528	10,768,348
Noncurrent assets:						
Net pension asset	2,329,326	-	1,736,303	889,535	4,955,164	812,556
Notes and contracts receivable	61,700	-	-	-	61,700	-
Capital assets not being depreciated	8,868,066	2,793,733	7,500,113	4,537,641	23,699,553	253,996
Capital assets net of depreciation	60,162,775	3,474,807	93,213,617	11,146,314	167,997,513	7,003,529
Total noncurrent assets	71,421,867	6,268,540	102,450,033	16,573,490	196,713,930	8,070,081
Total assets	93,487,867	8,994,439	116,182,106	24,480,046	243,144,458	18,838,429
Deferred outflows of resources						
Deferred amount related to pension	377,270	-	232,171	114,681	724,122	88,097
Total deferred outflows of resources	377,270	-	232,171	114,681	724,122	88,097
Total assets and deferred outflows	\$ 93,865,137	\$ 8,994,439	\$ 116,414,277	\$ 24,594,727	\$ 243,868,580	\$ 18,926,526
<b>LIABILITIES AND DEFERRED INFLOWS</b>						
Current liabilities:						
Accounts/contract payable	591,454	340,153	468,842	331,957	1,732,406	194,206
Claims and judgements payable	-	-	-	-	-	463,217
Due to other funds	4,311,976	-	837,923	1,507,674	6,657,573	34,438
Due to other governments	-	38,283	-	-	38,283	-
Employee wages payable	136,951	207,588	128,376	47,757	520,672	50,169
Other accrued liabilities	150,923	7,788	90,233	58,957	307,901	44,555
Current portion of long-term debt	619,174	340,000	1,137,512	150,542	2,247,228	-
Performance bonds & deposits payable	134,170	361,491	34,310	28,834	558,805	-
Unearned revenue	329,230	-	-	-	329,230	-
Other current liabilities	34,447	-	13,990	4,856	53,293	-
Total current liabilities	6,308,325	1,295,303	2,711,186	2,130,577	12,445,391	786,584
Noncurrent liabilities:						
Claims and judgments payable	-	-	-	-	-	1,852,866
Bonds, notes and loans payable	5,809,734	2,295,000	11,150,085	2,519,527	21,774,346	-
Net pension liability	539,442	-	173,138	90,191	802,771	-
Compensated absences	196,161	-	86,450	66,926	349,537	65,703
Total noncurrent liabilities	6,545,337	2,295,000	11,409,673	2,676,644	22,926,654	1,918,569
Total liabilities	12,853,662	3,590,303	14,120,859	4,807,221	35,372,045	2,705,153
Deferred inflows of resources related to pension	2,761,401	-	1,804,496	925,262	5,491,159	754,028
Total liabilities and deferred inflows	\$ 15,615,063	\$ 3,590,303	\$ 15,925,355	\$ 5,732,483	\$ 40,863,204	\$ 3,459,181
<b>NET POSITION</b>						
Net investment in capital assets	62,601,933	3,633,540	88,426,133	13,013,886	167,675,492	7,257,525
Restricted for capital assets	-	666,693	-	-	666,693	-
Restricted for debt service	144,643	-	932,748	-	1,077,391	-
Restricted for worker's compensation	-	-	-	-	-	100,000
Restricted for pension	421,820	-	316,955	158,643	897,418	146,625
Unrestricted	15,081,678	1,103,903	10,813,086	5,689,715	32,688,382	7,963,196
Total net position	\$ 78,250,074	\$ 5,404,136	\$ 100,488,922	\$ 18,862,244	\$ 203,005,376	\$ 15,467,346
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					\$ 12,840,211	
Net position of business-type activities					\$ 215,845,587	

See accompanying notes to the financial statements.

**City of Bremerton**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended December 31, 2021**

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf	Wastewater	Stormwater	Total	Internal Service Funds
		Course				
<b>OPERATING REVENUES</b>						
Charges for services	\$ 14,436,672	\$ 6,039,810	\$ 16,454,900	\$ 4,759,805	\$ 41,691,187	\$ 6,329,640
Other operating revenue	718,845	-	-	67,898	786,742	13
Total operating revenues	<u>15,155,517</u>	<u>6,039,810</u>	<u>16,454,900</u>	<u>4,827,703</u>	<u>42,477,929</u>	<u>6,329,653</u>
<b>OPERATING EXPENSES</b>						
Operations and maintenance	9,561,239	\$ 108,379	10,783,182	3,460,854	23,913,654	3,378,875
Contracted operations	-	4,856,706	-	-	4,856,706	-
Customer service and marketing	455,482	-	301,952	209,260	966,695	-
General administration	195,091	-	157,941	146,677	499,709	695,471
Depreciation and amortization	2,695,763	183,033	4,376,318	266,030	7,521,143	943,777
Risk transfer payments	-	-	-	-	-	1,264,286
Payments to claimants & beneficiaries	-	-	-	-	-	742,258
Total operating expenses	<u>12,907,575</u>	<u>5,148,118</u>	<u>15,619,393</u>	<u>4,082,820</u>	<u>37,757,907</u>	<u>7,024,668</u>
Operating income (loss)	<u>2,247,942</u>	<u>891,692</u>	<u>835,506</u>	<u>744,882</u>	<u>4,720,022</u>	<u>(695,014)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Interest and investment revenue	(12,659)	(3,400)	3,167	(5,090)	(17,982)	8,617
Interest expense	(163,712)	(127,365)	(261,045)	(62,584)	(614,706)	-
Gain (loss) on capital asset disposal	-	-	-	-	-	6,681
Other nonoperating revenue/expense	561,168	13,961	102,543	392	678,065	14,773
Total nonoperating revenues (expenses)	<u>384,797</u>	<u>(116,804)</u>	<u>(155,335)</u>	<u>(67,282)</u>	<u>45,376</u>	<u>30,071</u>
Income (loss) before contributions and transfers	<u>2,632,739</u>	<u>774,888</u>	<u>680,171</u>	<u>677,600</u>	<u>4,765,398</u>	<u>(664,943)</u>
Capital contributions	2,864,525	-	2,000,664	707,081	5,572,270	1,504,124
Transfers from other funds	-	-	-	75,000	75,000	-
Change in net position	5,497,264	774,888	2,680,835	1,459,680	10,412,668	839,181
Total net position - beginning	<u>72,507,667</u>	<u>4,629,248</u>	<u>97,640,845</u>	<u>17,402,564</u>	<u>192,180,324</u>	<u>14,628,165</u>
Prior period adjustment (Note 1B)	245,143	-	167,242	-	412,385	-
Total net position - ending	<u>\$ 78,250,074</u>	<u>\$ 5,404,136</u>	<u>100,488,922</u>	<u>\$ 18,862,244</u>	<u>\$ 203,005,376</u>	<u>\$ 15,467,346</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					600,837	
Change in net position of business-type activities.					<u>\$ 11,013,505</u>	

See accompanying notes to the financial statements.

**City of Bremerton**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2021**

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Stormwater	Total	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash received from customers	\$ 15,103,937	\$ 6,141,929	\$ 17,075,914	\$ 4,724,682	\$ 43,046,462	\$ -
Cash receipts from interfund services	65,664				65,664	5,988,183
Other receipts and payments	653,181		-	170,523	823,704	13
Cash payments to suppliers	(2,675,528)	(4,799,241)	(3,413,484)	(463,709)	(11,351,962)	(1,810,733)
Cash payments to employees	(4,206,393)		(3,117,210)	(1,407,217)	(8,730,820)	(1,913,838)
Cash payments for interfund services	(3,042,480)	(108,379)	(7,948,859)	(655,509)	(11,755,227)	(550,410)
Purchase of insurance	-	-	-	-	-	(1,177,312)
Payment for insurance claims	-	-	-	-	-	(742,257)
Net cash provided (used) by operating activities	5,898,381	1,234,309	2,596,361	2,368,770	12,097,822	(206,354)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Grant proceeds	-	-	-	58,161	58,161	-
Transfer ins	-	-	-	75,000	75,000	-
Transfer outs	-	-	-	-	-	-
Other receipts and payments	747,325	13,962	102,543	(64,633)	799,197	2,526
Net cash provided (used) by noncapital financing activities	747,325	13,962	102,543	68,528	932,357	2,526
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Loan proceeds	-	-	1,503,043	334,069	1,837,112	-
Capital contributions	2,864,525	-	2,000,664	707,081	5,572,270	1,503,726
Collections on notes receivable	-	-	-	-	-	-
Sale or involuntary conversion of capital assets	-	-	-	-	-	65,620
Acquisition and construction of capital assets	(3,917,154)	-	(5,865,621)	(2,504,731)	(12,287,506)	(873,553)
Principal paid bonds	(217,100)	(330,000)	(795,100)	(82,800)	(1,425,000)	-
Principal paid on other debt	(539,742)		(950,697)	(57,475)	(1,547,913)	-
Interest paid on bonds and other debt	(221,198)	(102,495)	(321,609)	(71,432)	(716,734)	-
Net cash provided (used) by capital and related financing activities	(2,030,669)	(432,495)	(4,429,319)	(1,675,288)	(8,567,772)	695,793
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>						
Interest on loans and investments	(3,877)	(2,845)	10,900	(326)	3,852	16,160
Net change in investments	(374,644)	(168,643)	1,265,330	276,803	998,846	476,324
Net cash provided (used) by investing activities	(378,521)	(171,488)	1,276,230	276,477	1,002,698	492,484
Net increase (decrease) in cash and cash equivalents	4,236,516	644,288	(454,185)	1,038,486	5,465,105	984,449
Cash and equivalents - beginning	7,894,005	790,786	3,744,780	3,329,884	15,759,455	4,775,364
Cash and equivalents - ending	\$ 12,130,521	\$ 1,435,074	\$ 3,290,595	\$ 4,368,370	\$ 21,224,560	\$ 5,759,813
Cash at the end of the year consists of:						
Operating fund cash	12,071,840	1,435,074	2,912,178	4,368,371	20,787,463	5,659,813
Restricted cash	58,682	-	378,416	-	437,098	100,000
Total cash at end of year	\$ 12,130,522	\$ 1,435,074	\$ 3,290,594	\$ 4,368,371	\$ 21,224,561	\$ 5,759,813

See accompanying notes to the financial statements.

**City of Bremerton  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2021**

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Stormwater	Total	Internal Service Funds
<b>Reconciliation of operating income to net cash provided by operating activities:</b>						
Operating income (loss)	\$ 2,247,942	\$ 891,692	\$ 835,504	\$ 744,882	\$ 4,720,020	\$ (695,014)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	2,695,763	183,033	4,376,318	266,030	7,521,144	943,777
GASB 68 pension expense adjustment	(1,179,459)	-	(662,205)	(326,245)	(2,167,909)	(260,433)
Decrease (increase) in receivables	427,682	(91,536)	455,699	(33,122)	758,723	69
Decrease (increase) in due from other funds/govt	(182,221)	-	(2,639,344)	98,080	(2,723,485)	(341,524)
Decrease (increase) in prepaid expenses	-	(6,174)	-	-	(6,174)	-
Decrease (increase) in inventory	(29,792)	(79,340)	(42,024)	-	(151,157)	(3,280)
Increase (decrease) in accounts payable	246,415	130,156	(147,986)	187,819	416,404	54,449
Increase (decrease) in due to other funds/govt	1,496,856	788	263,823	1,438,664	3,200,131	28,065
Increase (decrease) in employee wages payable	(24,732)	12,035	6,698	(5,607)	(11,607)	(29,048)
Increase (decrease) in employee leave payable	(39,656)	-	(15,439)	271	(54,824)	5,658
Increase (decrease) in other payables	(5,560)	193,655	(1,925)	(2,000)	184,171	90,929
Revenue received for prior year	245,143	-	167,242	-	412,385	-
Net cash provided by operating activities	<u>\$ 5,898,381</u>	<u>\$ 1,234,309</u>	<u>\$ 2,596,361</u>	<u>\$ 2,368,771</u>	<u>\$ 12,097,822</u>	<u>\$ (206,353)</u>
<b>Noncash investing, capital and financial activities</b>						
Developers contributed infrastructure	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See accompanying notes to the financial statements.

**City of Bremerton  
Statement of Fiduciary Net Position  
Fiduciary Funds  
December 31, 2021**

	<b>Custodial Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,114,898
Total assets	\$ 2,114,898
 <b>LIABILITIES</b>	
Due to other governments	
Court fines, penalties, litigation & seizure	7,271
Leasehold tax	1,888
License, surcharges & fees	2,688
Accounts Payable and other liabilities	177,910
Total liabilities	\$ 189,757
 <b>NET POSITION</b>	
Restricted for:	
Individuals, organizations & other governments	1,925,142
Total net position	\$ 1,925,142

See accompanying notes to the financial statements.

**City of Bremerton**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Year Ended December 31, 2021**

		<u>Custodial Activities</u>
<b>ADDITIONS</b>		
Collected for other governments:		
Court fines, penalties & litigation	\$	339,734
Fingerprint, dealer license & background fee		2,754
Concealed weapons surcharge		6,501
Building code surcharge		8,805
Leasehold tax		9,769
Seizures & evidence		19,754
Bank Transfer, Bremerton Government Center Owners Association		1,645,763
Association dues, Bremerton Government Center Owners Association		830,223
Contributions, Gorst Coalition		115,000
Total additions	\$	<u>2,978,303</u>
<b>DEDUCTIONS</b>		
Payments to other governments:		
Court fines, penalties, litigation & seizure	\$	330,452
Fingerprint, dealer license & background fee		2,537
Concealed weapons surcharge		6,126
Building code surcharge		8,805
Leasehold tax		9,769
Seizures & evidence		239,080
Association expenses, Bremerton Government Center Owners Association		575,338
Professional services, Gorst Coalition		108,648
Total deductions	\$	<u>1,280,753</u>
Net increase (decrease) in fiduciary net position	\$	1,697,549
Net Position-beginning		<u>227,593</u>
Net Position-ending	\$	<u>1,925,142</u>

See accompanying notes to the financial statements.

**City of Bremerton**  
**Notes to Financial Statements**  
**January 1, 2021 – December 31, 2021**

**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. The significant accounting policies are described below.

**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.

**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. 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. For the most part, the effect of interfund activity has been removed from these statements.

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 include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Internally dedicated resources are reported as general revenues rather than program revenues. 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.

**Accounting and Reporting Changes**

*Capital Asset, Note 6* – The capital asset reconciliation process identified a classification error the prior year’s reported ending balances for the business-type activities categories, improvements other than buildings and machinery and equipment. The beginning balances were restated in the note disclosure for these categories.

*Fiduciary* – The City became fiscal agents during the year for the Gorst Coalition and Bremerton Government Center Owners Association.

**Prior Period Adjustment**

*Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds* - The City received \$245,143 in Water revenue and \$167,242 in Wastewater revenue that was for fiscal year 2020 and not previously recognized.

**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, similar to 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 Residential Street Capital is a capital construction fund for the purpose of making capital improvements to City residential streets and sidewalk. This fund was closed as of December 31, 2021.

The City reports the following major proprietary funds:

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

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

#### **D. Budgetary Information**

##### **1. Scope of Budget**

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

##### **2. Amending the Budget**

The City's budget is adopted at the department and category group level. The five distinct category groups are 1) Personnel, 2) Supplies, Services and Taxes, 3) Debt Service, 4) Capital Expenditures and 5) Transfers. Expenditures may not legally exceed appropriations at that level of detail. The Mayor may authorize a one-time transfer of less than \$10,000 between category groups within a department. All other revisions within a fund or any revisions that alter the total expenditures of a fund or affect the number of authorized employee positions or salary ranges must be approved by the City Council. The City's budget was amended two times in 2021.

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

#### **E. Assets, Liabilities and Net Position**

##### **1. Cash and Cash Equivalents**

It is the City's policy to invest all temporary cash surpluses. At December 31, 2021, the City was holding \$53,173,293 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds, including fiduciary fund. The interest on these investments is prorated to the various funds.

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

##### **2. Investments - See Note 3 Deposits and Investments.**

##### **3. Receivables**

Receivables consist of property, B&O, utility, sales and parking taxes, and housing rehabilitation loans resulting from the Federal Department of Housing and Urban Development., as well as other revenues earned by the City from the County, State and other taxpayers but not yet received. Also included are customers' accounts receivable which consist

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

4. Amounts Due to and From Other Funds and Governments

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

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

5. Inventories

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

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

6. Restricted Assets and Liabilities

These accounts contain resources for programs, construction, replacement, and debt service. Specific debt service reserve requirements are described in Note 9, *Long-Term Debt*. Restricted assets are composed of the following:

<b>Governmental type:</b>	
Cash and investments - Construction	\$ 6,861,266
Cash and investments - Conference Center	130,197
Cash and investments - Public safety	828,736
Cash and investments - Public Television	237,327
Cash and investments - Workers compensation	100,000
Cash and investments - Tourism promotion	420,522
Cash and investments - Debt Service	136,931
Receivables - Debt Service	4,803
Due from Other Governments - HUD Programs	62,066
Due from Other Governments - Transportation Grants	51,919
Total governmental	\$ 8,833,767
<b>Business type:</b>	
Cash and Investments - Debt service Water fund	\$ 144,643
Cash and Investments - Debt service Wastewater fund	932,748
Total business	\$ 1,077,391

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

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

historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value per GASB 72, at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The cost of normal maintenance and repairs are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is not included as a part of the capitalized value of the assets constructed.

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

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

8. Other Assets

This account reflects various non-current assets of the City including utility water rights, risk management prepayments and receivables for community development block grant loans.

9. Deferred outflow of resources

A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. The account includes the portion of a loss on the refunding of debt attributable to future periods. This account also includes pension costs attributable to future periods. See Note 8, *Pension Plans* for a discussion on pension reporting. Lastly, this account also includes the City’s OPEB contributions subsequent to the measurement date. See Note 15, *Defined Benefit Other Postemployment Benefits (OPEB) Plans* for a discussion of OPEB reporting.

10. Compensated Absences

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

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

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 and may be carried over from year to year:

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

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

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

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

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

#### 11. Pensions

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

#### 12. Other Current/Accrued Liabilities

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

#### 13. Long-term Debt See Note 9, *Long-Term Debt*.

#### 14. Unearned Revenue

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met. The City's reported unearned revenue consists of the receivable portion determined to be long-term for red-light traffic infractions, court fines and funds from the American Rescue Plan Act (ARPA). In proprietary funds this amount represents credit balances on customer utility accounts.

#### 15. Deferred Inflow of Resources

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

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

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

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

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

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

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

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

	<b>General Fund</b>	<b>Other Funds</b>	<b>Total</b>
Fund balances:			
<b>Nonspendable:</b>			
Inventory	\$ 31,000	\$ -	\$ 31,000
<b>Restricted for:</b>			
Tourism promotion	-	420,522	420,522
Conference Center	130,197	-	130,197
Community development block grant	-	62,066	62,066
Public safety	-	728,488	728,488
Public Access Television	-	237,326	237,326
Court Improvement	-	100,246	100,246
Debt service	-	143,961	143,961
Capital projects	-	6,890,951	6,890,951
<b>Committed to:</b>			
Fund balance stabilization	1,647,980	-	1,647,980
Employee Wellness	-	5,314	5,314
Parks	-	178,926	178,926
Public safety	-	35,091	35,091
Public art	-	11,029	11,029
Transportation Capital	-	2,895,079	2,895,079
Affordable Housing	-	3,470	3,470
Other	-	23,987	23,987
<b>Assigned to:</b>			
Street Operations	-	669,174	669,174
Tourism promotion & facilities	-	49,844	49,844
Parking System	-	876,041	876,041
Building Abatement	-	236,148	236,148
Public Access Television	-	499,372	499,372
Court Improvement	-	11,050	11,050
Debt Service	-	260,297	260,297
Transportation Capital	-	557,838	557,838
Capital Improvements	-	415,503	415,503
<b>Unassigned:</b>	<b>16,369,698</b>	<b>-</b>	<b>16,369,698</b>
Total Fund Balances	\$ 18,178,875	\$ 15,311,723	\$ 33,490,598

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

A minimum fund balance policy has been established by the City Council that establishes target year end operating cash and investment balances as a percentage of budgeted operating expenditures for the City's General, Water, Wastewater, Stormwater and Golf Course funds. The following table shows the status at December 31, 2021.

<b>Fund</b>	<b>Target Rate</b>	<b>Target Balance</b>	<b>Balance 12/31/2021</b>
General	8.5%	\$ 4,074,615	\$ 16,005,933
Water	12%	2,439,307	17,120,252
Wastewater	12%	2,814,575	8,789,765
Stormwater	12%	1,170,981	5,985,435
Golf Course	12%	557,370	1,513,975

A contingency reserve fund, for the purposes of economic stabilization, was created by the City Council to protect the City's General fund in the event of unforeseen and unfunded emergency requirements. The target fund balance is set at 0.375/\$1,000 of assessed valuation. The proceeds of sale of all General fund real property are committed to this purpose. Funds are to be expended, with the unanimous vote of the City Council, only in the event of a bona fide emergency defined as a significant crisis threatening the financial viability of the City. If the balance of the fund is less than the target amount a repayment plan shall be established to replenish the fund to its minimum level. Balances in excess of the stated amount can be used for capital purposes upon City Council approval by simple majority vote. For 2021 the target fund balance of the contingency reserve fund is \$1,658,941. At 12/31/2021 the balance was \$1,647,980.

## 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 for governmental activities

The governmental fund balance sheet includes reconciliation between total fund balance and total net position for governmental activities 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 not being depreciated	\$ 29,848,298
Capital assets of governmental funds being depreciated	168,373,429
Accumulated depreciation	(81,900,604)
<b>Net adjustment to fund balance for capital assets</b>	<b>\$ 116,321,123</b>

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	\$ 4,013,567
Investment interest accrued beyond the city's 30 day measurable and available period	35,049
Net Pension Asset	35,266,574
Deferred Pension Outflows	2,748,949
Deferred OPEB Outflows	532,212
<b>Net adjustment to fund balance for other long-term assets</b>	<b>\$ 42,596,351</b>

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

Net position of risk management fund	\$ 258,294
Net position of self insurance fund	36,652
Net position of employment security fund	251,386
Net position of accrued leave fund	646,678
Net position of equipment maintenance fund	167,339
Net position of information technology fund	1,266,786
Net adjustment to fund balance for internal service funds	<u>\$ 2,627,135</u>

Some liabilities, including bonds, loans and compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:

GO bonds payable	\$ (22,225,000)
Less: Issuance premiums	(608,112)
Add: Deferred amount on refunding	684,814
Accrued interest payable	(128,825)
Compensated absences	(3,005,153)
Net Pension Liability	(617,560)
Deferred Pension Inflow	(21,542,079)
Other Post Employment Benefits	(43,430,434)
Net adjustment to fund balance for long-term liabilities	<u>\$ (90,872,349)</u>

**B. Explanation of aggregated differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities for governmental 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	\$ 3,962,823
Depreciation	(5,077,957)
Gain <Loss> on retirement	(13,372)
Net adjustment to net change in fund balances - governmental funds	<u>\$ (1,128,506)</u>

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

GO Bond Principle Paid	\$ 2,000,000
Amortized Bond Premium	83,552
Amortized Deferred Amount on Refunding	(87,795)
Net adjustment to net change in fund balances - governmental funds	<u>\$ 1,995,757</u>

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

Change in accrued interest receivable	\$ (16,082)
Change in court fines receivable	(401,835)
Change in block grant loans receivable	(23,688)
Change in parking/red light fines receivable	23,386
Change in property taxes	(71,486)
Change in other deferred revenues	(13,706)
Change in derived taxes	95,581
Change in Pension Expense GASB 68	7,212,896
LEOFF 2 Special Rev GASB 68	456,570
Change in other post-employment benefits payable	(4,107,786)
Change in accrued interest payable	(26,024)
Change in compensated absences payable	(17,154)
<b>Net adjustment to net change in fund balances - governmental funds</b>	<b>\$ 3,110,672</b>

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

Net revenue of risk management activities	\$ (245,523)
Net revenue of self insurance activities	-
Net loss of employment security activities	64,018
Net revenue of accrued leave activities	197,072
Net revenue of equipment maintenance activities	46,063
Net revenue of information technology activities	176,714
<b>Net adjustment to net change in fund balances - governmental funds</b>	<b>\$ 238,344</b>

### C. Explanation of aggregated differences between the proprietary fund statements and the government-wide statement of activities for business activities

The proprietary funds statement of net position and proprietary fund statement of revenues, expenses and changes in net position include a reconciliation item. The net position and net revenue of the Equipment Rental Reserve internal service fund is proprietary in nature and is included in the government-wide statements for business activities.

Net position of equipment rental reserve fund	\$ 12,840,211
<b>Net adjustment to net change in fund balances - proprietary funds</b>	<b>\$ 12,840,211</b>

Net revenue of equipment rental reserve activities	600,838
<b>Net adjustment to fund balance for internal service funds</b>	<b>\$ 600,838</b>

## 3. Deposits and Investments

### A. Deposits

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

### B. Investments

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

**Cash & Cash Equivalents**

Cash on hand	8,110,127
<b>Total Cash &amp; Cash Equivalents</b>	<b>\$ 8,110,127</b>

Investment Type	Investment Maturity (in Years)				Percent of Total
	Fair Value	<12 Months	13-24 Months	>25 Months	
Federal Farm Credit Bank	\$ 4,027,280	\$ 3,028,530	\$ -	\$ 998,750	5.4%
Federal Home Loan Bank	6,064,360	4,025,600	2,038,760	-	8.1%
Federal Home Loan Mortgage	4,961,000	-	4,961,000	-	6.6%
Federal National Mortgage Association	994,640	-	994,640	-	1.3%
Pierce County School District	596,808	-	596,808	-	0.8%
US Treasury	13,408,890	2,028,980	994,300	10,385,610	17.9%
Local Government Investment Pool	45,063,165	45,063,165	-	-	60.0%
<b>Total</b>	<b>\$ 75,116,142</b>	<b>\$ 54,146,275</b>	<b>\$ 9,585,508</b>	<b>\$ 11,384,360</b>	<b>100.0%</b>

**Total Cash and Investments** **\$ 83,226,270**

The amounts above include the \$2,114,898 for fiduciary funds. Additionally, the City held \$679,035 in cash in clearing accounts.

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

Investment Type	Fair Value (1)	Credit Ratings			Unrated
		AAA/Aaa (2)	AA/Aa (2)	A (2)	
Federal Agency Obligations	\$ 16,047,280	\$ 16,047,280	\$ -	\$ -	-
State Treasurer's Investment Pool (3)	45,063,165	-	-	-	45,063,165
US Treasury	13,408,890	13,408,890	-	-	-
School Districts	596,808	596,808	-	-	-
Bank Deposits	8,110,127	-	-	-	8,110,127
<b>Total</b>	<b>\$ 83,226,270</b>	<b>\$ 30,052,977</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 53,173,293</b>

(1) Fair Value includes accrued interest

(2) Rating agencies: Moody's AAA, AA, A; S&P Aaa, A

(3) Measured at amortized cost

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

*Concentration of Credit Risk.* The City's investment policy states that (with the exception of U.S. Treasury securities and the State Investment Pool) no more than 30% of the City's total investment portfolio will be invested in a single security type or with a single financial institution. At 12/31/21 the portfolio was in compliance with this policy.

Local Government Investment Pool	54%
Federal Farm Credit Bank	5%
Federal Home Loan Bank	7%
Federal Home Loan Mortgage	6%
Federal National Mortgage Association	1%
US Treasury	16%

*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 if the City would not have access to investment holdings. The City’s investment policy requires that all security transactions be conducted on a delivery versus payment basis. Securities will be held in a third-party custodial account designated by the City Treasurer.

**Investments Measured at Fair Value**

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

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

Investments measured at Fair Value Level	Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3
Federal Agency Obligations	\$ 16,047,280	\$ -	\$ 16,047,280	\$ -
US Treasury	13,408,890	13,408,890	-	-
School Districts	596,808	596,808	-	-
<b>Total</b>	<b>\$ 30,052,977</b>	<b>\$ 14,005,697</b>	<b>\$ 16,047,280</b>	<b>\$ -</b>

**Investments in Local Government Investment Pool (LGIP)**

The City is a participant in the Local Government Investment Pool was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

**4. Property Taxes**

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

**A. Property Tax Calendar**

- January 1 - Taxes are levied and become an enforceable lien against properties.
- February 14 - Tax bills are mailed.
- April 30 - First of two equal installment payments is due.
- May 31 - Assessed value of property established for next year's levy at 100 percent of market value.
- October 31 - Second installment is due.

Property taxes are recorded as a revenue and receivable when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred inflow of resources and recognized as revenue of the period to which they apply. No

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

RCW 84.52.043 allows a city to levy taxes of up to \$3.375 per \$1,000 of taxable property in the city and RCW 41.16.060 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 2021, the Kitsap Regional Library District levied \$0.356 per \$1,000 of assessed valuation, and therefore the City's maximum levy rate is \$3.244 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 2021 was \$1.842 per \$1,000 on an assessed valuation of \$4.410 billion, for a total regular levy of \$8,124,542.

Special levies approved by the voters are not subject to the above limitations. In 2021, the City levied an additional \$0.801 per \$1,000 for General Obligation Bonds and Emergency Medical Services, for a total additional levy of \$3,522,370.

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, 2021, was as follows:

	<b>Beginning Balance 1/1/2021</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance 12/31/2021</b>
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 20,174,450	\$ 199,496	\$ -	\$ 20,373,946
Construction in progress	7,326,080	3,962,821	1,819,698	9,469,202
Intangibles	5,150	-	-	5,150
Total capital assets, not being depreciated	27,505,680	4,162,316	1,819,698	29,848,298
Capital assets, being depreciated:				
Buildings/building improvements	63,559,463	559,231	14,279	64,104,415
Improvements other than buildings	21,856,943	544,656	69,623	22,331,976
Machinery and equipment	12,545,844	214,274	-	12,760,117
Infrastructure	68,977,634	302,042	-	69,279,676
Total capital assets, being depreciated	166,939,884	1,620,203	83,902	168,476,184
Less accumulated depreciation for:				
Buildings/buildings improvements	20,161,551	1,299,041	10,145	21,450,446
Improvements other than buildings	14,738,049	699,973	60,385	15,377,637
Machinery and equipment	8,070,439	602,037	-	8,672,476
Infrastructure	33,984,221	2,492,529	-	36,476,750
Total accumulated depreciation	76,954,260	5,093,579	70,530	81,977,309
Total capital assets, being depreciated, net	89,985,624	(3,473,376)	13,372	86,498,875
Governmental activities capital assets, net	\$ 117,491,304	\$ 688,941	\$ 1,833,071	\$ 116,347,173

<b>Business-type Activities</b>	<b>Beginning Balance 1/1/2021</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance 12/31/2021</b>
Capital assets, not being depreciated:				
Land	\$ 9,881,734	\$ -	\$ -	\$ 9,881,734
Construction in progress	5,891,297	13,224,028	5,161,415	13,953,910
Intangibles	117,904	-	-	117,904
<b>Total capital assets, not being depreciated</b>	<b>15,890,935</b>	<b>13,224,028</b>	<b>5,161,415</b>	<b>23,953,548</b>
Capital assets, being depreciated:				
Buildings/building improvements	59,535,811	-	-	59,535,811
Intangibles	2,407,213	-	-	2,407,213
Improvements other than buildings (*)	176,008,253	2,503,393	-	178,511,646
Machinery and equipment (*)	75,748,322	2,658,023	470,753	77,935,592
<b>Total capital assets, being depreciated</b>	<b>313,699,599</b>	<b>5,161,416</b>	<b>470,753</b>	<b>318,390,263</b>
Less accumulated depreciation for:				
Buildings/buildings improvements	27,473,110	1,126,318	-	28,599,427
Intangibles	2,300,131	9,242	-	2,309,373
Improvements other than buildings	63,708,226	3,420,338	-	67,128,564
Machinery and equipment	41,908,562	3,893,402	424,061	45,377,903
<b>Total accumulated depreciation</b>	<b>135,390,029</b>	<b>8,449,300</b>	<b>424,061</b>	<b>143,415,268</b>
<b>Total capital assets, being depreciated, net</b>	<b>178,309,570</b>	<b>(3,287,883)</b>	<b>46,692</b>	<b>174,974,995</b>
<b>Business-type activities Capital assets, net</b>	<b>\$ 194,200,505</b>	<b>\$ 9,936,145</b>	<b>\$ 5,208,107</b>	<b>198,928,543</b>

\* Beginning Balance Restated

As disclosed in Note 1B, Accounting and Reporting Changes, the City restated the beginning balance from the prior year's reported ending balances for the business-type activities categories, improvements other than buildings and machinery and equipment.

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

<b>Governmental Activities:</b>	
General government	\$ 217,423
Public safety	643,111
Transportation, including depreciation of general infrastructure assets	2,641,906
Culture and recreation	1,575,517
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	15,621
<b>Total depreciation expense - Governmental activities</b>	<b>\$ 5,093,578</b>
<b>Business-type activities:</b>	
Water	\$ 2,695,763
Wastewater	4,376,318
Stormwater	266,030
Golf	183,033
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	928,156
<b>Total depreciation expense - Business-type activities</b>	<b>\$ 8,449,300</b>

## 6. Construction Commitments

The City has active construction projects and future construction projects which are in design phase as of December 31, 2021. The projects include:

<b>Project</b>	<b>Spent to Date</b>	<b>Remaining Commitment</b>
CW-4 Upgrades	163,699	97,061
Kitsap Lake Safe Routes to School Project	447,669	29,261
Water Res SCADA Upgrade	224,495	505
Quincy Square on 4th Street	466,694	64,455
Remodel Fire Station 2	55,543	3,526
Remodel Fire Station 3	55,543	3,532
Ostrich Creek Culvert Replacements	608,928	37,376
Pine Road Basin Improvements	600,971	31,211
PS CE-1 Modification	4,536,801	223,406
E 11th St - Pitt to Perry	467,910	29,499
E 11th St Stormwater Treatment Design	100,000	-
6th St - Callow to Naval	83,936	4,958
6th St - Callow to Naval_ADA Ramps	5,075	370
6th St - Warren to Pacific	176,481	-
6th St Phase 2 Watermain	64,625	191
HSIP Phase III	618,597	76,532
Oyster Bay Beach Sewer Upgrades	473,129	128,368
Pump Station 14 Relocation	303,140	75,424
Downtown Bike Improvement	63,571	8,874
Warren Ave Playfield Renovation	80,518	-
Washington & 11th Roundabout	548,806	206,938
WWTP Salinity Study	179,062	52,838
Oyster Bay North Lot	16,679	386
2nd St Stormwater Quality Retrofit	21,431	12,069
Warren Ave Playfield Renovation	17,508	7,392
Sensus Flexnet System	377,887	172,848
DNR Beach Sewer Mtigation	24,938	54
Kitsap Lake Safe Routes to School Project	2,552,254	3,658
Ostrich Bay Creek Stormwater	70,994	14,427
Well 6R Rehabilitation	19,967	218
OB-1 to OB-2 Beach Sewer	3,041	1,614
Kitsap Lake Park Renovations	126,890	6,350
Marine Drive Watermain Replacement	258,263	39,104
Well 6R Rehabilitation	103,877	-
	\$ 13,918,925	\$ 1,332,444

## 7. Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions for the year 2021:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (1,420,332)
Pension assets	\$ 41,034,293
Deferred outflows of resources	\$ 3,561,168
Deferred inflows of resources	\$ (27,787,266)
Pension expense/expenditures	\$ (6,867,778)

### State Sponsored Pension Plans

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

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

Department of Retirement Systems  
Communications Unit  
P.O. Box 48380  
Olympia, WA 98540-8380

Or the DRS ACFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

### Public Employees' Retirement System (PERS)

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

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

#### Contributions

The **PERS Plan 1**-member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
January - June 2021:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.97%</b>	<b>6.00%</b>
July - December 2021:		
PERS Plan 1	10.07%	6.00%
Administrative Fee	0.18%	
<b>Total</b>	<b>10.25%</b>	<b>6.00%</b>

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

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

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

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

#### Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates :</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
January - June 2021:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
<b>Total</b>	<b>12.97%</b>	<b>7.90%</b>
July - December 2021:		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
<b>Total</b>	<b>10.25%</b>	<b>6.36%</b>

The City's actual PERS plan contributions were \$785,978 to PERS Plan 1 and \$1,247,746 to PERS Plan 2/3 for the year ended December 31, 2021.

### **Public Safety Employees' Retirement System (PSERS)**

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

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

PSERS membership includes:

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

PSERS covered employers include:

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

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

found eligible by the Department of Labor and Industries. PSERS Plan 2 members are vested after completing five years of eligible service.

Contributions

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

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2021 were as follows:

<b>PSERS Plan 2</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
January - June 2021:		
PSERS Plan 2	7.20%	7.20%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.25%</b>	<b>7.20%</b>
July - December 2021:		
PSERS Plan 2	6.50%	6.50%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
<b>Total</b>	<b>10.39%</b>	<b>6.50%</b>

The City’s actual PSERS plan contributions were \$10,787 to PSERS Plan for the year ended December 31, 2021.

**Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF)**

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

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

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

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

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, if the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2021. Employers paid only the administrative expense of 0.18 percent of covered payroll.

**LEOFF Plan 2** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability

payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as a percentage of covered payroll) was 3.44% as of July 1, 2021.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

<b>LEOFF Plan 2</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
<b>January - June 2021:</b>		
State and local governments	5.15%	8.59%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.33%</b>	<b>8.59%</b>
Ports and Universities	8.59%	8.59%
Administrative Fee	0.18%	
<b>Total</b>	<b>8.77%</b>	<b>8.59%</b>
<b>July - December 2021</b>		
State and local governments	5.12%	8.53%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.30%</b>	<b>8.53%</b>
Ports and Universities	8.53%	8.53%
Administrative Fee	0.18%	
<b>Total</b>	<b>8.71%</b>	<b>8.53%</b>

The City’s actual LEOFF 2 plan contributions were \$728,948 for the year ended December 31, 2021.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2021, the state contributed \$78,170,320 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$13,303,378.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) *2013-2018 Demographic Experience Study* and the *2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan liabilities were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan’s normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation

- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were developed using the Society of Actuaries’ Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

There were no changes in assumptions since the last valuation. There were changes in methods since the last valuation.

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

### Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan’s fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA’s assumptions, the pension plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

### Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

### Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2021, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB’s most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20.00%	2.20%
Tangible Assets	7.00%	5.10%
Real Estate	18.00%	5.80%
Global Equity	32.00%	6.30%
Private Equity	23.00%	9.30%

### Sensitivity of Net Pension Liability/(Asset)

The table below presents the city's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease 6.40%	Current Discount Rate 7.40%	1% Increase 8.40%
PERS 1	\$ 2,419,615	\$ 1,420,332	\$ 548,854
PERS 2/3	\$ (4,061,076)	\$ (14,255,361)	\$ (22,650,360)
PSERS 2	\$ (10,869)	\$ (69,326)	\$ (115,592)
LEOFF 1	\$ (5,480,542)	\$ (6,087,703)	\$ (6,613,001)
LEOFF 2	\$ (13,004,186)	\$ (20,621,903)	\$ (26,859,292)

### Pension Plan Fiduciary Net Position

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

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

At June 30, 2021, the City reported a net pension liability of \$1,420,332 and a net pension asset of \$41,034,293 for its proportionate share of the net pension liabilities (or assets) as follows:

Plan	Liability (or Asset)
PERS 1	\$(1,420,332)
PERS 2/3	\$14,255,361
PSERS 2	\$69,326
LEOFF 1	\$6,087,703
LEOFF 2	\$20,621,903

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the City. The amount recognized by the city as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the city were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	\$ (6,087,703)	\$ (20,621,903)
State's proportionate share of the net pension asset associated with the employer	\$ (41,177,074)	\$ (13,303,378)
TOTAL	\$ (47,264,777)	\$ (33,925,281)

At June 30, 2021 the city's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/20	Proportionate Share 6/30/21	Change in Proportion
PERS 1	0.116549%	0.116303%	-0.00025%
PERS 2/3	0.144535%	0.143103%	-0.00143%
PSERS 2	0.034865%	0.030176%	-0.00469%
LEOFF 1	0.178974%	0.177714%	-0.00126%
LEOFF 2	0.370158%	0.355035%	-0.01512%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2021 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2021. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2021, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions, and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2021, the state of Washington contributed 39.57 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.43 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2021, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

### Pension Expense

For the year ended December 31, 2021, the city recognized pension expense as follows:

	<b>Pension Expense</b>
PERS 1	\$ (284,222)
PERS 2/3	\$ (3,204,326)
PSERS	\$ (3,357)
LEOFF 1	\$ (882,949)
LEOFF 2	\$ (2,492,925)
<b>TOTAL</b>	<b>\$ (6,867,779)</b>

### Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (1,576,093)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ 321,155	\$ -
<b>TOTAL</b>	<b>321,155</b>	<b>(1,576,093)</b>

<b>PERS 2-3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 692,362	\$ (174,757)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (11,914,138)
Changes of assumptions	\$ 20,832	\$ (1,012,367)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 300,273	\$ (128,702)
Contributions subsequent to the measurement date	\$ 526,745	\$ -
<b>TOTAL</b>	<b>1,540,212</b>	<b>(13,229,964)</b>

<b>PSERS</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 7,114	\$ (274)
Net difference between projected and actual investment earnings on pension plan investments	\$ 256	\$ (49,658)
Changes of assumptions	\$ 11	\$ (7,089)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 1,373	\$ (1,491)
Contributions subsequent to the measurement date	\$ 3,502	\$ -
<b>TOTAL</b>	<b>12,256</b>	<b>(58,512)</b>

<b>LEOFF 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (1,860,168)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ -	\$ -
<b>TOTAL</b>	<b>-</b>	<b>(1,860,168)</b>

<b>LEOFF 2</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 935,331	\$ (108,985)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (9,832,671)
Changes of assumptions	\$ 8,914	\$ (980,779)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 405,749	\$ (140,093)
Contributions subsequent to the measurement date	\$ 337,807	\$ -
<b>TOTAL</b>	<b>1,687,801</b>	<b>(11,062,528)</b>

Deferred outflows of resources related to pensions resulting from the city's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b><i>PERS 1</i></b>
2022	\$(417,507)
2023	\$(385,589)
2024	\$(361,753)
2025	\$(414,244)
Thereafter	\$ -
<b>Total</b>	<b>\$(1,579,093)</b>

<b>Year ended December 31:</b>	<b><i>PERS 2/3</i></b>
2022	\$(3,212,161)
2023	\$(2,998,103)
2024	\$(2,849,526)
2025	\$(3,111,867)
2026	\$(48,746)
Thereafter	\$3,907
<b>Total</b>	<b>\$(12,216,496)</b>

<b>Year ended December 31:</b>	<b><i>PSERS</i></b>
2022	\$(12,962)
2023	\$(12,298)
2024	\$(11,668)
2025	\$(12,948)
2026	\$(52)
Thereafter	\$(87)
<b>Total</b>	<b>\$(50,015)</b>

<b>Year ended December 31:</b>	<b>LEOFF 1</b>
2022	\$(494,127)
2023	\$(451,970)
2024	\$(426,476)
2025	\$(487,594)
Thereafter	\$ -
<b>Total</b>	<b>\$(1,860,167)</b>

<b>Year ended December 31:</b>	<b>LEOFF 2</b>
2022	\$(2,594,506)
2023	\$(2,415,662)
2024	\$(2,280,538)
2025	\$(2,571,527)
2026	\$(7,390)
Thereafter	\$157,089
<b>Total</b>	<b>\$(9,712,534)</b>

## 8. Risk Management

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

Following is a summary of the City's 2021 insurance coverage and risk retention:

<b>Risk</b>	<b>Coverage Limit Per Occurrence</b>	<b>Self-Insured Retention</b>	<b>Insurer</b>
Property Liability	\$400,000,000	\$100,000	Hartford Fire Insurance Company
Excess liability	\$10,000,000	\$500,000	Princeton Excess & Surplus Lines Insurance Company & Allied World National Assurance Company
Excess workers' compensation - excluding Police & Fire	Statutory	\$1,000,000	Midwest Employers Casualty Company
Excess workers' compensation - Police & Fire	Statutory	\$100,000	Midwest Employers Casualty Company
Crime	\$1,000,000	\$25,000	Great American Insurance Company
Pollution legal liability	\$5,000,000	\$100,000	Navigators Specialty Insurance Company
Cyber Liability	\$5,000,000	\$100,000	Indian Harbor Insurance Company
Aviation Liability	\$1,000,000	\$0	Allianz Global Risks US Insurance Company
Marine Liability	\$1,000,000	\$5,000	Travelers Property Casualty 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, 2021, the Risk Management fund had cash and investment reserves of \$1.2 million. The Statement of Net Position for the Risk Management fund includes the unspent portion of this amount in prepayments. Long-term fund liabilities have been estimated at \$1,852,866. 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 following table shows the actual claims activity for 2020 and 2021:

	2020	2021
Claims liability - beginning of year	\$ 1,359,255	\$ 1,783,287
Claims incurred	2,175,357	3,087,456
Estimate change prior years	(288,156)	(820,143)
Payment on claims	<u>(1,463,169)</u>	<u>(2,197,734)</u>
Claims liability - end of year	<u>\$ 1,783,287</u>	<u>\$ 1,852,866</u>

## 9. Long-term Debt

### A. Long Term Debt

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

General obligation bonds currently outstanding are as follows:

	Maturity Date	Interest Rate	Outstanding 12/31/2021
2010 UTGO Refunding	12/1/2030	3.4191%	4,505,000
2015 UTGO Fire Bonds	12/31/2025	2.89%	1,820,000
2012 LTGO Refunding - Govt Center	7/1/2034	2.7954%	3,475,000
2013 LTGOA Refunding - Conf Ctr Pkg	12/1/2036	3.0082%	6,530,000
2013 LTGOB Refunding - Golf Course	12/1/2028	3.0082%	2,635,000
2019 LTGO Refunding	9/1/2035	1.65%	<u>5,895,000</u>
Total General Obligation Bonds and Notes			\$ 24,860,000

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

Year Ending December 31	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2022	2,065,000	703,742	340,000	93,450
2023	2,160,000	636,411	350,000	83,590
2024	2,235,000	565,154	360,000	72,915
2025	2,315,000	491,214	375,000	60,315
2026	1,885,000	413,582	385,000	47,190
2027-2031	6,595,000	1,321,302	825,000	48,555
2032-2036	<u>4,970,000</u>	<u>428,700</u>	<u>-</u>	<u>-</u>
Total	\$ 22,225,000	\$ 4,560,104	\$ 2,635,000	\$ 406,015

The revenue bonds and loans outstanding as of December 31, 2021 were as follows:

	Maturity Date	Interest Rate	Outstanding 12/31/2021
W/S REF & REVENUE BOND 2014	12/1/2034	3.85	1,433,800
W/S REF & REVENUE BOND 2014	12/1/2034	3.85	3,586,200
W/S REF & REVENUE BOND 2016	12/1/2035	2.51	2,357,803
W/S REF & REVENUE BOND 2016	12/1/2035	2.51	2,395,996
W/S REF & REVENUE BOND 2016	12/1/2035	2.51	1,501,200
CWSRF DECOMMISSION BEACH SEWER	12/31/2042	2.00	10,128
CWSRF OYSTER BAY BEACH SEWER UPGRADES	12/31/2042	1.50	1,866,052
DWSRF CASAD DAM VALVE REPL	10/1/2023	1.50	8,802
DWSRF EASTSIDE FLOW & PRESSURE IMP	10/1/2022	2.50	61,020
DWSRF CASAD DAM SEISMIC UPGRADE	10/1/2022	2.50	39,276
DWSRF ANDERSON CREEK	10/1/2024	1.50	16,145
DWSRF PUMP STATION 4 UPGRADE	10/1/2023	1.50	115,223
DWSRF SEISMIC UPGRADES	10/1/2024	1.50	84,895
DWSRF SEISMIC VALVE FLOW CONTROL	12/1/2036	1.00	667,085
DWSRF RESERVOIR 4 COVER	10/1/2024	1.00	1,222,109
PWTF BRENTWOOD STORM DRAIN REPAIR	7/1/2024	4.00	29,593
PWTF OSTRICH CREEK CULVERT IMP	6/1/2038	1.66	505,099
PWTF PINE BASE WATERSHED STORM IMP	6/1/2038	1.66	458,416
PWTF ANDERSON COVE BASIN 12	7/1/2023	0.50	57,698
PWTF NAVAL AVE	7/1/2023	4.00	26,316
PWTF PACIFIC AVE BASIN CSO	7/1/2024	0.50	209,932
PWTF WWTP UPGRADE	7/1/2025	0.50	42,689
PWTF ANDERSON COVE SEW PS CW1	7/1/2027	0.50	213,159
PWTF WWTP UPGRADES	7/1/2027	0.50	977,763
WPCRF CSO PLAN UPDATE	12/31/2022	1.50	14,821
WPCRF CALLOW DESIGN FINAL	12/31/2022	1.50	34,158
WPCRF ANDERSON COVE CSO	1/23/2022	1.50	18,849
WPCRF TRENTON/CHERRY	10/15/2024	1.50	177,902
WPCRF ANDERSON COVE BASIN 12	9/17/2026	1.50	81,459
WPCRF TRENTON PUMP STATION	10/15/2024	1.50	177,786
WPCRF TRACYTON BEACH CSO	2/9/2025	1.50	136,985
WPCRF PACIFIC AVE CSO RED - SEP	6/30/2024	1.50	93,737
WPCRF PACIFIC AVE CSO REDUCTION	12/31/2027	1.50	373,895
WPCRF CHERRY/TRENTON CSO RED -F	12/31/2026	1.50	313,742
WPCRF WWTP UPGRADE	1/1/2029	2.60	304,742
WPCRF GORST SEWERAGE CONSTR	12/31/2030	1.40	298,190
WPCRF GORST SEWERAGE CONSTR	10/17/2032	1.40	32,001
WPCRF GORST SEPTIC SYSTEM DES	12/31/2030	2.90	60,811
WPCRF GORST SEWERAGE DESIGN	12/31/2030	1.40	287,261
Total Revenue Bonds and Loans			\$ 20,292,735

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

Year Ending December 31	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2022	-	-	\$ 1,939,976	\$ 530,341
2023	-	-	1,859,288	529,154
2024	-	-	1,786,747	490,068
2025	-	-	1,559,948	448,329
2026	-	-	1,566,022	408,711
2027-2031	-	-	6,459,774	1,434,495
2032-2036	-	-	4,444,771	428,591
2037-2041	-	-	582,400	33,967
2042	-	-	93,809	1,557
Total	\$ -	\$ -	\$ 20,292,735	\$ 4,305,213

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

At December 31, 2021, the City has \$393,696 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$1,077,391 in sinking funds and reserves as required by bond indentures.

#### **B. Refunded Debt**

In prior years, the City defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for defeased bonds are not included in the City's financial statements. At December 31, 2021 there were no defeased bonds outstanding

## 10. Changes in Long Term Liabilities

During the year ended December 31, 2021, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2021	Additions	Reductions	Ending Balance 12/31/2021	Due Within One Year
<b>Governmental Activities:</b>					
Bonds payable:					
General obligation bonds	\$ 24,225,000	\$ -	\$ 2,000,000	\$ 22,225,000	\$ 2,065,000
Add unamortized premiums	691,665	-	83,551	608,114	-
Total bonds payable:	<u>\$ 24,916,665</u>	<u>\$ -</u>	<u>\$ 2,083,551</u>	<u>\$ 22,833,114</u>	<u>\$ 2,065,000</u>
Claims and judgments	\$ 1,783,287	\$ 3,087,456	\$ 3,017,877	\$ 1,852,866	\$ -
Compensated absences	3,088,066	26,592	-	3,114,658	1,245,863
Other Post Employment Benefits	39,253,251	6,052,107	1,874,924	43,430,434	2,171,522
Pension Liability	<u>2,982,024</u>	<u>-</u>	<u>2,364,464</u>	<u>617,560</u>	<u>-</u>
Governmental activity long-term liabilities:	<u>\$ 72,023,293</u>	<u>\$ 9,166,155</u>	<u>\$ 9,340,816</u>	<u>\$ 71,848,632</u>	<u>\$ 5,482,385</u>
<b>Business-type Activities:</b>					
Bonds payable:					
General obligation bonds	\$ 2,965,000	\$ -	\$ 330,000	\$ 2,635,000	\$ 340,000
Revenue bonds	12,370,000	-	1,095,000	11,275,000	655,000
Add unamortized premiums	<u>1,173,185</u>	<u>-</u>	<u>80,520</u>	<u>1,092,665</u>	<u>-</u>
Total bonds payable:	<u>\$ 16,508,185</u>	<u>\$ -</u>	<u>\$ 1,505,520</u>	<u>\$ 15,002,665</u>	<u>\$ 995,000</u>
Intergovernmental loans	\$ 8,729,708	\$ 1,837,112	\$ 1,547,912	\$ 9,018,908	\$ 1,252,228
Compensated Absences	673,935	-	91,372	582,563	233,025
Pension Liability	<u>2,981,305</u>	<u>-</u>	<u>2,178,534</u>	<u>802,771</u>	<u>-</u>
Business-type activity long-term liabilities:	<u>\$ 28,893,133</u>	<u>\$ 1,837,112</u>	<u>\$ 5,323,338</u>	<u>\$ 25,406,907</u>	<u>\$ 2,480,253</u>

The Risk Management, Equipment Maintenance and Information Technology internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$1,852,866 of Risk Management claims and judgments and \$19,505 of Information Technology compensated absences are included in the above governmental activities amounts. Also, for the governmental activities, compensated absences are generally liquidated by the Accrued leave liability internal service fund and claims and judgments by the Risk Management internal service fund.

## 11. Contingencies and Litigation

As of December 31, 2021, 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 9, Long-Term Debt, the City is contingently liable for repayment of refunded debt.

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

## 12. Restricted Net Position

The government-wide statement of net position reports \$28,620,974 of restricted net position, all of which is restricted by enabling legislation and external contractual commitments.

## 13. Interfund Balances and Transfers

### A. Interfund Balances

Interfund balances at December 31, 2021, were as follows:

		Due From						Total
		General Fund	Other Govt	Water	Waste-Water	Storm-Water	Internal Service	
Due To	General Fund	\$ 441,894	\$ -	\$ 223,903	\$ 344,858	\$ 104,156	\$ 224,289	\$ 1,339,099
	Other Governmental	614,234	4,615,236	8,605	-	99,025	28,168	5,365,267
	Water	249,685	(8,145)	8,530	3,976,657	-	85,248	4,311,976
	Wastewater	473,345	-	80,721	14,190	-	269,666	837,923
	Stormwater	-	118,168	77,492	1,285,766	2,612	23,636	1,507,674
	Internal Service	6,372	-	-	-	1,934	359,817	368,123
Total		\$ 1,785,530	\$ 4,725,259	\$ 399,251	\$ 5,621,471	\$ 207,727	\$ 990,824	\$ 13,730,062

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 2022. Interfund loans are approved by City Council Resolution and include a repayment date. The City had only one interfund loan outstanding at year end which is included in the interfund balances in the above schedule.

Loaned From	Purpose	Yr of final Payment	Loaned To	
			General Fund	Total
Internal service	Conference Ctr Exp	2034	237,109	237,109
Total			\$ 237,109	\$ 237,109

### B. Interfund Transfers

Interfund transfers at December 31, 2021 were as follows:

		Transfer From		
		General Fund	Other Govt	Total
Transfer To	General Fund	\$ -	\$ 417,843	\$ 417,843
	Other governmental funds	1,041,803	4,259,438	5,301,241
	Stormwater	75,000	-	75,000
	Total	\$1,116,803	\$4,677,281	\$5,794,084

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 in 2021.

## 14. Receivable and Payable Balances

### A. Receivables

Accounts Receivable at December 31, 2021 were as follows:

	Accounts		Notes		Other	Total
	Accounts	Taxes	Contracts	Interest		
<b>Governmental Activities:</b>						
General Fund	2,186,951	3,401,715	4,732	-	11,648	\$ 5,605,046
Non-major governmental funds	262,146	1,309,927	125,738	-	-	1,697,811
Reconciliation of balances in fund financial statements to government-wide financial statements	-	-	-	38,929	-	38,929
Total governmental activities	\$ 2,449,097	\$ 4,711,642	\$ 130,470	\$ 38,929	\$ 11,648	\$ 7,341,786
<b>Business-Type Activities:</b>						
Water	\$ 1,461,963	\$ -	\$ 8,904	\$ 17,952	\$ -	\$ 1,488,819
Golf	128,831	-	-	2,130	-	130,961
Wastewater	2,238,937	-	-	4,856	-	2,243,794
Stormwater	738,203	-	-	6,443	-	744,646
Reconciliation of balances in fund financial statements to government-wide financial statements	-	-	-	4,672	-	4,672
Total business-type activities	\$ 4,567,934	\$ -	\$ 8,904	\$ 36,054	\$ -	\$ 4,612,892

### B. Payables

Accounts payable and other accrued liabilities at December 31, 2021 were as follows:

	Other		Bonds & Deposits	Claims/ Judgements	Other	Total
	Vendors	Governments				
<b>Governmental Activities:</b>						
General Fund	\$ 894,812	\$ 8,960	\$ -	\$ 97,459	\$ -	\$ 1,001,231
Non-major and other funds	1,274,009	-	15,666	1,311,962	-	\$ 2,601,638
Reconciliation of balances in fund financial statements to government-wide financial statements	194,206	-	-	-	445,822	684,583
Total governmental activities	\$ 2,363,027	\$ 8,960	\$ 15,666	\$ 1,409,422	\$ 445,822	\$ 4,287,452
<b>Business-Type Activities:</b>						
Water	\$ 591,454	\$ -	\$ 34,447	\$ 134,170	\$ 20,082	\$ 130,841
Golf	340,153	38,283	-	361,491	7,788	-
Wastewater	468,842	-	13,988	34,310	32,310	57,924
Stormwater	331,957	-	4,858	28,834	14,339	44,617
Total business-type activities	\$ 1,732,406	\$ 38,283	\$ 53,293	\$ 558,805	\$ 74,519	\$ 233,382
						\$ 2,690,688

## 15. Defined Benefit Other Postemployment Benefits (OPEB) Plans

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2021:

<b>Aggregate OPEB Amounts – All Plans</b>	
OPEB liabilities	\$ 43,430,434
Deferred outflows of resources	\$ 532,212
OPEB expenses/expenditures	\$ 6,052,107

### 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 single employer defined benefit healthcare plan administered by the City. The eligible members are covered under LEOFF Plan 1. 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. Financial reporting for the LEOFF retiree healthcare plan is included in the City's Annual Financial Report.

### Employees Covered by Benefit Terms

At December 31, 2021, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	78
Total	78

### Contributions

The City paid \$1,124,127 in medical benefits for plan members during the year ended December 31, 2021.

### Funding Policy

Funding for LEOFF retiree healthcare costs is provided entirely by the City as required by RCW. The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust or otherwise set aside for the exclusive benefit of the participants.

### Actuarial Assumptions

The Total OPEB Liability (TOL) was determined by an actuarial valuation as of June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

<b>Methodology</b>	
Actuarial Cost Method	Entry Age*
<b>Assumptions</b>	
<b>Discount Rate</b> <sup>1</sup>	
Beginning of measurement year	2.21%
End of measurement year	2.16%
<b>Health Care Trend Rates</b> <sup>2</sup>	
Medical costs	Initial rate is approximately 5.3%, trends down to about 5.0% in 2021's.
Long-term care	4.50%
Medicare Part B premiums	Approximately 5%, varies by year
<b>Mortality rates (100% male population)</b>	

Base Mortality Table	PubS.H.-2010 (Public Safety)
Age Setback	-1 year Healthy / 0 years Disabled Blended 50%/50% Healthy/Disabled
Mortality Improvements	MP-2017 Long-Term Rates
Projection Period	Generational
<b>Medicare Participation Rate</b>	100%

- (1) Source: Bond Buyer General Obligation 20-Bond Municipal Index.
- (2) For additional detail on the healthcare trend rates, please see OSA's 2020 LEOFF OPEB Actuarial Valuation Report.

The following presents the total OPEB Liability of the City calculated using the current healthcare cost trend rate of 5.3 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percent point lower (4.3 percent) or a 1-percent point higher (6.3 percent) than the current rate.

<b>Sensitivity Analysis – Healthcare Trend</b>			
	<b>1% Decrease</b> (4.3%)	<b>Current</b> (5.3%)	<b>1% Increase</b> (6.3%)
<b>Total OPEB Liability</b>	<b>\$39,283,437</b>	<b>\$43,430,434</b>	<b>\$48,228,439</b>

The following presents the total OPEB Liability of the City calculated using the discount rate of 2.16 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percent point lower (1.16 percent) or a 1-percent point higher (2.16 percent) than the current rate. A discount rate of 2.21% was used in the calculation of the Total OPEB liability, beginning. The end of year Discount Rate is being used in this analysis.

<b>Sensitivity Analysis – Discount Rate</b>			
	<b>1% Decrease</b> (1.16%)	<b>Current</b> (2.16%)	<b>1% Increase</b> (3.16%)
<b>Total OPEB Liability</b>	<b>\$48,618,262</b>	<b>\$43,430,434</b>	<b>\$39,059,544</b>

The following table presents the changes in Total OPEB Liability:

<b>Changes in Total OPEB Liability</b>	
Total OPEB Liability as of January 1, 2021 <sup>1</sup>	\$39,253,251
Interest	\$846,892
Difference between Expected and Actual Experience and Changes in Assumptions	\$5,205,215
Estimated Benefit Payments	(\$1,874,924)
<b>Net Change in Total OPEB Liability</b>	<b>\$4,177,183</b>
<b>Total OPEB Liability at December 31, 2021</b>	<b>\$43,430,434</b>

- (1) The valuation date is prior to the City's reporting date, December 31, 2021. The balances have not been rolled forward to the reporting date.

As of the beginning of the fiscal year, the City's LEOFF I member count was below 100 members. The City utilized the alternative measurement method to calculate Total OPEB Liability. A measurement date of June 30, 2021 was used in the calculation of Total OPEB Liability, and the Actuarial Measurement Date used was June 30, 2021.

For the year ended December 31, 2021, the City recognized OPEB expense of \$6,052,107. The City reported deferred outflows of resources related to OPEB from the following sources:

<b>LEOFF Plan 1</b>	<b>Deferred Outflows of Resources</b>
City contributions subsequent to the measurement date	\$532,212
<b>Total</b>	<b>\$532,212</b>

Deferred outflows of resources of \$532,212 related to OPEB benefits resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the Total OPEB Liability in the year ended December 31, 2021.

## 16. Segment Information

The City operates a utility system providing water, wastewater and stormwater management services to the citizens of Bremerton and a portion of Kitsap County outside city boundaries. Operations are financed by user fees imposed on customers of each utility. The City has issued revenue bonds to finance improvements to its sewer system. While the operations of each utility are accounted for in separate funds, the repayment of the revenue bonds relies on the combined revenues of all three utilities. In addition, the City operates a public golf course whose operations are funded entirely through user fees. Except for 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, 2021, for the combined utility operations are as follows:

### Condensed Statement of Net Position

#### Assets and Deferred Outflows

Current assets	\$ 42,627,238
Restricted assets	1,077,391
Other assets	61,700
Capital assets	185,428,526
Net pension asset	4,955,164
Total assets	<u>234,150,019</u>
Deferred outflows of resources	724,122
Total assets and deferred outflows	<u>234,874,141</u>

#### Liabilities and Deferred Inflows

Current liabilities	4,492,515
Due to other funds	6,657,573
Long-term liabilities	20,631,654
Total liabilities	<u>31,781,742</u>
Deferred inflows of resources	5,491,159
Total liabilities and deferred inflows	<u>37,272,901</u>

#### Net Position

Net investment in capital assets	164,041,952
Restricted for debt service	1,077,391
Restricted for pension	897,418
Unrestricted	31,584,479
Total net position	<u><u>\$ 197,601,240</u></u>

### Condensed Statement of Revenues, Expenses and Changes in Net Position

<b>Total operating revenues</b>	\$ 36,438,119
<b>Operating Expenditures:</b>	
Operating expenses	25,271,678
Depreciation/amortization/depletion	7,338,110
<b>Total operating expenses</b>	<u>32,609,789</u>
Operating income(loss)	3,828,330
<b>Non-Operating Revenues/Expenses</b>	
Interest revenue/expense (net)	(501,924)
Other (net)	664,104
<b>Total non-operating revenues/expenses</b>	<u>162,180</u>
Capital contributions	5,572,270
Transfers	75,000
Change in net position	9,637,780
Beginning net position	187,551,076
Prior period adjustment (Note 1B)	412,385
<b>Ending net position</b>	<u>\$ 197,601,240</u>

### Condensed Statement of Cash Flows

Net cash provided by:	
(a) Operating activities	\$ 10,863,512
(b) Noncapital financing activities	918,396
(c) Capital and related financing activities	(8,135,277)
(d) Investing activities	1,174,186
Beginning cash and equivalents balance	14,968,669
<b>Ending cash and equivalents balance</b>	<u>\$ 19,789,486</u>

## 17. Tax Abatements

The City established a Multi-Family tax exemption in 2008. The program allows developers to defer property taxes on improvements to the property for either an eight or 12-year period. To get the 12-year exemption the development would require 20% of the unit's rents be at low to moderate income levels. As of December 31, 2021, the City of Bremerton had one development receiving the twelve-year exemption, 606 Apartments. Two properties, Sound West Quincy Square (B Flats) located at 252 4<sup>th</sup> Street and the Spyglass Hill Apartments located 646 Highland Avenue are receiving the eight-year exemption. The County Assessor has an assessed value of zero for these properties with deferred taxes listed as zero.

## 18. Subsequent Events

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function. The state of Washington reopened in June 2021, however the full extent of the financial impact on the City is unknown at this time.

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bremerton  
 Schedule of Proportionate Share of the Net Pension Liability  
 PERS 1

As of June 30, 2021  
 Last 10 Fiscal Years\*

	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	% 0.116303%	0.116549%	0.123118%	0.119525%	0.113091%	0.118770%	0.123666%
Employer's proportionate share of the net pension liability	\$ 1,420,332	4,114,809	4,734,324	5,338,027	5,366,256	6,378,508	6,468,882
Covered payroll	\$ 17,529,899	8,926,017	16,639,813	15,180,306	13,566,127	13,389,026	13,311,432
Employer's proportionate share of the net pension liability as a percentage of covered payroll	% 8.10%	46.10%	28.45%	35.16%	39.56%	47.64%	48.60%
Plan fiduciary net position as a percentage of the total pension liability	% 88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%

**Notes to Schedule:**

\*Until a full 10-year trend is compiled, only information for those years available is presented.

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bremerton  
 Schedule of Proportionate Share of the Net Pension Liability  
 PERS 2/3  
 As of June 30, 2021  
 Last 10 Fiscal Years\*

	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	% 0.143103%	0.144535%	0.147167%	0.139523%	0.131118%	0.135150%	0.142884%
Employer's proportionate share of the net pension liability (asset)	\$ (14,255,361)	1,848,520	1,429,492	2,382,231	4,555,724	6,804,696	5,105,327
Covered payroll	\$ 17,115,797	8,710,022	15,999,830	14,715,110	12,854,513	12,623,875	12,565,311
Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	% -83.29%	21.22%	8.93%	16.19%	35.44%	53.90%	40.63%
Plan fiduciary net position as a percentage of the total pension liability (asset)	% 120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%

**Notes to Schedule:**

\*Until a full 10-year trend is compiled, only information for those years available is presented.

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bremerton  
 Schedule of Proportionate Share of the Net Pension Liability  
 PSERS

As of June 30, 2021  
 Last 10 Fiscal Years\*

	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	% 0.030176%	0.034865%	0.042645%	0.048871%	0.050267%	0.040694%	0.042703%
Employer's proportionate share of the net pension liability (asset)	\$ (69,326)	(4,797)	5,546	606	9,849	17,294	7,794
Covered payroll	\$ 204,552	109,775	196,720	191,844	177,976	131,920	126,609
Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	% -33.89%	-4.37%	2.82%	0.32%	5.53%	13.11%	6.16%
Plan fiduciary net position as a percentage of the total pension liability (asset)	% 123.67%	101.68%	101.85%	99.79%	96.26%	90.41%	95.08%

**Notes to Schedule:**

\*Until a full 10-year trend is compiled, only information for those years available is presented.

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bremerton  
 Schedule of Proportionate Share of the Net Pension Liability  
 LEOFF 1  
 As of June 30, 2021  
 Last 10 Fiscal Years\*

	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension asset	% 0.177714%	0.178974%	0.177456%	0.179985%	0.175920%	0.174239%	0.175712%
Employer's proportionate share of the net pension asset	\$ (6,087,703)	\$ (3,379,940)	\$ (3,507,615)	\$ (3,267,631)	\$ (2,669,093)	\$ (1,795,160)	\$ (2,117,718)
State's proportionate share of the net pension asset associated with the employer	\$ (41,177,074)	\$ (22,861,831)	\$ (23,725,419)	\$ (22,102,177)	\$ (3,273,223)	\$ (1,437,670)	\$ (2,701,196)
TOTAL	\$ (47,264,777)	\$ (26,241,771)	\$ (27,233,034)	\$ (25,369,808)	\$ (5,942,316)	\$ (3,232,830)	\$ (4,818,914)
Covered payroll	\$ 0	0	0	0	99,976	126,465	122,729
Employer's proportionate share of the net pension asset as a percentage of covered payroll	% 0.00%	0.00%	0.00%	0.00%	(2669.74%)	(1419.49%)	(1725.52%)
Plan fiduciary net position as a percentage of the total pension asset	% 187.45%	146.88%	148.78%	144.42%	135.96%	123.74%	127.36%

**Notes to Schedule:**

\*Until a full 10-year trend is compiled, only information for those years available is presented.

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bremerton  
 Schedule of Proportionate Share of the Net Pension Liability  
 LEOFF 2  
 As of June 30, 2021  
 Last 10 Fiscal Years\*

	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension asset	% 0.355035%	0.370158%	0.362908%	0.369504%	0.363627%	0.379152%	0.397479%
Employer's proportionate share of the net pension asset	\$ (20,621,903)	\$ (7,550,683)	\$ (8,407,464)	\$ (7,501,737)	\$ (5,045,965)	\$ (2,205,262)	\$ (4,085,289)
State's proportionate share of the net pension asset associated with the employer	\$ (13,303,378)	\$ (4,828,090)	\$ (5,505,763)	\$ (4,857,233)	\$ (3,273,223)	\$ (1,437,670)	\$ (2,701,196)
TOTAL	\$ (33,925,281)	\$ (12,378,773)	\$ (13,913,227)	\$ (12,358,970)	\$ (8,319,188)	\$ (3,642,932)	\$ (6,786,485)
Covered payroll	\$ 13,669,533	7,270,211	12,620,374	12,297,035	11,374,905	11,486,092	11,496,279
Employer's proportionate share of the net pension asset as a percentage of covered payroll	% (150.86%)	(103.86%)	(66.62%)	(61.00%)	(44.36%)	(19.20%)	(35.54%)
Plan fiduciary net position as a percentage of the total pension asset	% 142.00%	115.83%	119.43%	118.50%	113.36%	106.04%	111.67%

**Notes to Schedule:**

\*Until a full 10-year trend is compiled, only information for those years available is presented.

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bremerton  
 Schedule of Employer Contributions  
 PERS 1  
 For the year ended December 31, 2021  
 Last 10 Fiscal Years\*

	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	\$ 785,978	\$ 841,619	\$ 841,708	\$ 834,881	\$ 751,960	\$ 663,672	\$ 620,110
Contributions in relation to the statutorily or contractually required contributions	\$ 785,978	\$ 841,619	\$ 841,708	\$ 834,881	\$ 751,960	\$ 663,672	\$ 620,110
Contribution deficiency (excess)	\$ 0	0	0	0	0	0	0
Covered payroll	\$ 17,529,899	17,201,900	16,650,360	15,660,667	14,680,139	13,155,996	12,333,775
Contributions as a percentage of covered payroll	% 4.48%	4.89%	5.06%	5.33%	5.12%	5.04%	5.03%

**Notes to Schedule:**

\* Until a full 10-year trend is compiled, only information for those years available is presented.

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bremerton  
 Schedule of Employer Contributions  
 PERS 2/3  
 For the year ended December 31, 2021  
 Last 10 Fiscal Years\*

	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	\$ 1,247,746	\$ 1,329,442	\$ 1,250,838	\$ 1,140,802	\$ 945,685	\$ 773,957	\$ 708,885
Contributions in relation to the statutorily or contractually required contributions	\$ 1,247,746	\$ 1,329,442	\$ 1,250,838	\$ 1,140,802	\$ 945,761	\$ 773,957	\$ 708,885
Contribution deficiency (excess)	\$ 0	0	0	0	(75)	0	0
Covered payroll	\$ 17,115,797	16,785,870	16,206,642	15,214,007	13,965,767	12,423,072	12,713,675
Contributions as a percentage of covered payroll	% 7.29%	7.92%	7.72%	7.50%	6.77%	6.23%	5.58%

**Notes to Schedule:**

\* Until a full 10-year trend is compiled, only information for those years available is presented.

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bremerton  
 Schedule of Employer Contributions  
 PSERS  
 For the year ended December 31, 2021  
 Last 10 Fiscal Years\*

	2021	2020	2019	2018	2017	2016	2015
<u>Statutorily or contractually required contributions</u> \$	10,787	\$ 15,092	\$ 14,437	\$ 13,202	\$ 12,572	\$ 10,081	\$ 8,196
<u>Contributions in relation to the statutorily or contractually required contributions</u> \$	10,787	15,092	\$ 14,437	\$ 13,202	\$ 12,572	\$ 10,081	\$ 8,196
<u>Contribution deficiency (excess)</u> \$	0	0	0	0	0	0	0
<u>Covered payroll</u> \$	204,552	209,611	202,306	193,520	189,011	152,968	126,758
<u>Contributions as a percentage of covered payroll</u> %	5.27%	7.20%	7.14%	6.82%	6.65%	6.59%	6.47%

**Notes to Schedule:**

\*Until a full 10-year trend is compiled, only information for those years available is presented.

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Bremerton  
 Schedule of Employer Contributions  
 LEOFF 2

For the year ended December 31, 2021  
 Last 10 Fiscal Years\*

	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	\$ 728,948	\$ 705,691	\$ 687,283	\$ 647,179	\$ 618,727	\$ 560,851	\$ 596,403
Contributions in relation to the statutorily or contractually required contributions	\$ 728,948	\$ 705,691	\$ 687,283	\$ 647,179	\$ 618,727	\$ 560,851	\$ 596,403
Contribution deficiency (excess)	\$ 0	0	0	0	0	0	0
Covered payroll	\$ 13,669,533	13,608,686	13,048,277	12,327,220	12,049,567	11,105,960	11,809,957
Contributions as a percentage of covered payroll	% 5.33%	5.19%	5.27%	5.25%	5.13%	5.05%	5.05%

**Notes to Schedule:**

\*Until a full 10-year trend is compiled, only information for those years available is presented.

City of Bremerton  
Schedule of Changes in Total OPEB Liability and Related Ratios  
LEOFF Plan 1  
For the year ended June 30, 2021  
Last 10 Fiscal Years\*

	2021	2020	2019	2018
<b>Total OPEB liability - beginning</b>	\$ 39,253,251	\$ 35,129,396	\$ 35,765,404	\$ 37,267,252
Service cost	-	-	-	-
Interest	846,892	1,194,313	1,345,611	1,303,334
Changes in benefit terms	-	-	-	-
Differences between expected and actual experience and Changes of Assumptions	5,205,215	4,959,352	27,628	(1,067,375)
Benefit payments	(1,874,924)	(2,029,810)	(2,009,247)	(1,737,807)
Other changes	-	-	-	-
<b>Total OPEB liability - ending</b>	<b>\$ 43,430,434</b>	<b>\$ 39,253,251</b>	<b>\$ 35,129,396</b>	<b>\$ 35,765,404</b>
<b>Covered-employee payroll</b>	-	-	-	-
<b>Total OPEB liability as a % of covered payroll</b>	N/A	N/A	N/A	N/A

**Notes to Schedule:**

\* Until a full 10-year trend is compiled, only information for those years available is presented.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

**City of Bremerton**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2021**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION, COMMERCE, DEPARTMENT OF (via WA RCO)	Pacific Coast Salmon Recovery Pacific Salmon Treaty Program	11.438	18-1838P	2,877	-	2,877	-	1, 3
OFFICE OF LOCAL DEFENSE COMMUNITY COOPERATION, DEPT OF DEFENSE	Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies	12.610	HQ0005201002 1	-	437,916	437,916	-	1, 2
<b>CDBG - Entitlement Grants Cluster</b>								
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-53- 0011	-	4,670	4,670	-	1, 2
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218	B-19-MC-53- 0011	-	4,824	4,824	4,824	1, 2
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218	B-20-MC-53- 0011	-	293,562	293,562	288,602	1, 2
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218	B-21-MC-53- 0011	-	361,362	361,362	201,482	1, 2

The accompanying notes are an integral part of this schedule.

**City of Bremerton**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2021**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218	Program Income	-	20,701	20,701	11,038	1, 2
<b>Total CDBG - Entitlement Grants Cluster:</b>				-	<b>685,119</b>	<b>685,119</b>	505,946	
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2020-DJ-BX- 0661	-	16,568	16,568	-	1, 2
<b>Highway Planning and Construction Cluster</b>								
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA State DOT)	Highway Planning and Construction	20.205	HSIP-000S (525)	137,479	-	137,479	-	1, 2
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Puget Sound Regional Council)	Highway Planning and Construction	20.205	STPUL-6566 (013)	655,249	-	655,249	-	1, 2
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Puget Sound Regional Council)	Highway Planning and Construction	20.205	STPUL-6577 (002)	1,981	-	1,981	-	1, 2
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Puget Sound Regional Council)	Highway Planning and Construction	20.205	STPUL-9918 (017)	261,595	-	261,595	-	1, 2
<b>Total Highway Planning and Construction Cluster:</b>				<b>1,056,304</b>	<b>-</b>	<b>1,056,304</b>	<b>-</b>	
<b>Highway Safety Cluster</b>								

**City of Bremerton**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2021**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Traffic Safety Commission)	State and Community Highway Safety	20.600	2021-HVE-4065	4,948	-	4,948	-	1, 2
<b>Total Highway Safety Cluster:</b>				<b>4,948</b>	<b>-</b>	<b>4,948</b>	<b>-</b>	
TREASURY, DEPARTMENT OF THE, TREASURY, DEPARTMENT OF THE	Equitable Sharing	21.016	117-20-012	-	2,411	2,411	-	1, 2
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via AOC)	COVID 19 - Coronavirus Relief Fund	21.019	NA	4,520	-	4,520	-	1, 2
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE	COVID 19 - CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21.027	ARPA	-	626,405	626,405	-	1, 2
HEALTH RESOURCES AND SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via United Healthcare)	COVID 19 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498	NA	20,885	-	20,885	-	124
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Kitsap Public Health)	COVID 19 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	NA	16,308	-	16,308	-	1, 2
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF	Port Security Grant Program	97.056	EMW-2018-PU- 00352	-	6,181	6,181	-	1, 2

**City of Bremerton**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2021**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF	Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EME-2017-FH- 00281	-	115,711	115,711	-	1, 2
<b>Total Federal Awards Expended:</b>				<b>1,105,842</b>	<b>1,890,311</b>	<b>2,996,153</b>	<b>505,946</b>	

The accompanying notes are an integral part of this schedule.

**City of Bremerton**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2021**

Note 1 – Basis of Accounting

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

Note 2 – Program Costs

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

Note 3 – Federal De Minimis Indirect Cost Rate

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

Note 4 – Provider Relief Program CFDA 93.498

The amount reported is based on the Provider Relief Program (PRF) reported to the U.S. Department of Health and Humans Services.



**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER  
UNIFORM GUIDANCE**

**City of Bremerton  
January 1, 2021 through December 31, 2021**

This schedule presents the corrective action planned by the City for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

<b>Finding ref number:</b> 2021-001	<b>Finding caption:</b> The City had inadequate internal controls for ensuring compliance with federal procurement and suspension and debarment requirements.
<b>Name, address, and telephone of City contact person:</b> Mike Riley, Director of Financial Services 345 6th Street, Suite 100 Bremerton, WA 98337 (360) 473-5303	
<b>Corrective action the auditee plans to take in response to the finding:</b> (If the auditee does not concur with the finding, the auditee must list the reasons for non-concurrence). <i>The City will ensure future goods and services funded by Coronavirus State and Local Fiscal Recovery Funds and other federal funding are procured in accordance with federal regulations. Additionally, the City will ensure documentation is retained verifying contractors were not suspended or debarred before contracting or purchasing with federal funds.</i>	
<b>Anticipated date to complete the corrective action:</b> Immediately.	

## ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

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