

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

City of Bremerton
Kitsap County

Audit Period
January 1, 2009 through December 31, 2009

Report No. 1004903

Issue Date
January 18, 2011



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

January 18, 2011

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,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Kitsap County
January 1, 2009 through December 31, 2009**

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Federal Summary

**City of Bremerton
Kitsap County
January 1, 2009 through December 31, 2009**

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

FINANCIAL STATEMENTS

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

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
16.710	Public Safety Partnership and Community Policing Grants
66.468	Capitalization Grants for Drinking Water State Revolving Funds
66.610	Surveys, Studies, Investigations and Special Purpose Grants

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

The City qualified as a low-risk auditee under OMB Circular A-133.

Schedule of Audit Findings and Responses

**City of Bremerton
Kitsap County
January 1, 2009 through December 31, 2009**

- 1. The City's Public Works Department does not have procedures to ensure capital assets do not depreciate past their useful lives.**

Background

City management, the state Legislature, state and federal agencies and bondholders rely on the information included in financial statements and reports to make decisions. City management is responsible to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. We identified material weaknesses in internal controls that adversely affect the City's ability to produce reliable financial statements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

We identified the following deficiency in internal controls over capital asset reporting that represent a material weakness. We noted:

The City's Public Works Department does not have policies and procedures to ensure capital assets do not depreciate past their useful life. Currently, the Department calculates depreciation expense using the total value of assets multiplied by the depreciation rate. However, the Department does not take into account the useful life of each asset and its total depreciation to date, so many assets have depreciated to an amount that exceeds their original cost.

Cause of Condition

The City's Public Works Department has not designed its internal controls to take into account the useful life of each asset to ensure the proper recording and valuation of capital assets.

Effect of Condition

We noted the following errors on the City's financial statements:

- The Statement of Revenues, Expenses, and Changes in Fund Nets Assets for Proprietary Funds overstated depreciation by \$1,670,375.

- The Statement of Net Assets understated Capital Assets, net of depreciation, for Business-Type Activities by \$25,727,039.

Material errors on the City's financial statements can give users of the City's financial statements an incorrect understanding of the City's financial position. This could result in incorrect or uninformed decisions made by those relying on the amounts reported on the City's statements.

Recommendation

We recommend City management:

- Establish procedures to ensure capital assets do not depreciate beyond their useful lives.
- Remove fully depreciated assets from its depreciation calculation.

City's Response

The City acknowledges that the depreciation process used did not have the proper controls in place to prevent the depreciation of assets past their useful lives. Depreciation of assets by class has been used by the City for many years. This method was used because the fixed asset tracking system in place did not have the capability of calculating depreciation on a per asset basis. Since that time the fixed asset system has been replaced with a new system that has that functionality.

In response to the auditor's finding, a thorough review of the preliminary results was conducted and it was discovered that the asset acquisition date of 12/31/45 was used at conversion to the new system on several assets that previously had no acquisition date. Staff researched assets with that date to determine the actual acquisition date. Once the corrections were made, the understatement of Capital Assets, net of depreciation, on the Statement of Net Assets for Business Activities was reduced to \$5,092,835 from \$25,727,039. The overstatement of depreciation on the Statement of Revenues, Expenses, and Changes in Fund Nets Assets for Proprietary Funds was decreased from \$1,670,375 to \$728,789. The final report was corrected to reflect these changes.

In the future the fixed asset system will be used to calculate depreciation on a per item basis. By insuring that each asset's acquisition date and depreciable life are correctly stated, we will no longer depreciate any fixed asset beyond its' depreciable life.

Auditor's Remarks

We appreciate the steps the City has made to address this issue. We have reviewed the corrections made and agree with the City's lower misstatement amounts which have been corrected in the annual financial report. We will follow up on this issue during the next audit.

Applicable Laws and Regulations

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefore; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budget Accounting and Reporting System (BARS) Manual, Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section B. Internal Control, states in part:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, January 2007 Revision - Section 5.11, states in part:

For all financial audits, auditors should report the following deficiencies in internal control:

- a. Significant deficiency: a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

b. Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

City of Bremerton
Kitsap County
January 1, 2009 through December 31, 2009

Mayor and City Council
City of Bremerton
Bremerton, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bremerton, Kitsap County, Washington, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 29, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 1 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

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

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

The City's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management, the Mayor and City Council, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 29, 2010

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

**City of Bremerton
Kitsap County
January 1, 2009 through December 31, 2009**

Mayor and City Council
City of Bremerton
Bremerton, Washington

COMPLIANCE

We have audited the compliance of the City of Bremerton, Kitsap County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2009. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2009.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal

control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Mayor and City Council, federal awarding agencies and pass-through entities. 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.

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BRIAN SONNTAG, CGFM
STATE AUDITOR

October 29, 2010

Independent Auditor's Report on Financial Statements

**City of Bremerton
Kitsap County
January 1, 2009 through December 31, 2009**

Mayor and City Council
City of Bremerton
Bremerton, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bremerton, Kitsap County, Washington, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed on page 13. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bremerton, as of December 31, 2009, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 14 through 25 and information on postemployment benefits other than pensions on page 66 are not a required part of the basic financial statements but are supplementary information required by the Governmental

Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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BRIAN SONNTAG, CGFM
STATE AUDITOR

October 29, 2010

Financial Section

**City of Bremerton
Kitsap County
January 1, 2009 through December 31, 2009**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2009

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2009
Statement of Activities – 2009
Balance Sheet – Governmental Funds – 2009
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental
Funds – 2009
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances of Governmental Funds to the Statement of Activities – 2009
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and
Actual – General Fund – 2009
Statement of Net Assets – Proprietary Funds – 2009
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary
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Statement of Cash Flows – Proprietary Funds – 2009
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Notes to Financial Statements – 2009

REQUIRED SUPPLEMENTAL INFORMATION

LEOFF 1 Retiree Medical Benefits – Schedule of Funding Progress – 2009

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards and Notes – 2009

Management's Discussion and Analysis

The City of Bremerton (City) presents this Management Discussion and Analysis (MD&A) in order to provide a narrative overview of the City's financial activities, focus on significant financial issues, and highlight significant changes in the City's financial position for the fiscal year ended December 31, 2009. 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 2009, the assets of the City exceeded its liabilities by \$229.2 million. Net assets invested in capital assets (net of depreciation and related debt) account for over 84.8 percent of this amount (\$194.4 million). Net assets restricted primarily for construction projects, debt service, Community Development Block Grant (CDBG) programs and public safety account for another 1.9 percent of this amount (\$4.3 million). The remaining net assets of \$30.5 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$9.3 million (4.3%) during the fiscal year. The governmental net assets increased by \$4.3 million (5.3%) from the amount reported in 2008. Business-type net assets increased by \$5.1 million (3.9%). The Business-type increase included net income before contributions and transfers for the Water utility of \$240,527, Wastewater utility of \$4.6 million, Golf Course \$75,398, and non-major proprietary funds of \$748,384.
- As of December 31, 2009, the City's governmental funds reported a combined fund balance of \$10.4 million, an increase of 9% from the prior year end. The fund balance of the General Fund increased by \$625,091. The remaining non-major governmental funds had a fund balance increase of \$234,058. The overall increase is largely attributable to increased transfers from the city's proprietary funds. Approximately \$10.1 million (96.5%) of the combined ending governmental fund balances is unreserved fund balance available to the City for future appropriation.
- At the end of 2009, the unreserved fund balance of the General Fund was \$1.9 million or approximately six percent of total General Fund expenditures of \$33.7 million. The General Fund's unreserved fund balance increased by approximately \$640,000 from the prior year's amount of \$1.3 million, a 49.1 percent increase. This increase is primarily due to increased transfers from the city's utilities in the form of payment in lieu of taxes and a \$1 million return of equipment reserve funds to the General fund in response to the decline of tax revenues locally.
- The City's total outstanding debt decreased by \$1.7 million (2.6%) during the current fiscal year to \$65.2 million. General obligation debt decreased by \$.6 million and revenue debt decreased by \$1.1 million. Debt per capita decreased from \$1,816 to \$1,781, a 2% reduction.
- Governmental revenues from local tax sources including sales, business & occupation, utility, and other miscellaneous taxes, decreased by approximately \$870,000 to \$24.3 million in 2009, a three and half percent decrease from 2008. The tax revenue decrease is primarily attributed to a decrease in the overall economic activity in the City.

Overview of the Financial Statements

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

Government-wide Financial Statements

The government-wide financial statements are designed to give the reader a picture of the financial condition and activities of the City as a whole. This broad overview is similar to the financial reporting of private-sector businesses. The government-wide financial statements have separate columns for governmental activities and business-type activities. Governmental activities of the City include general government (finance, executive, human resources), community development, public safety (police and fire), physical environment, transportation, mental/physical health, and culture and recreation. The City's business-type activities are limited to the City's municipal golf course and water, wastewater and stormwater utilities. 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 assets* presents information on all of the City's assets and liabilities, highlighting the difference between the two as net assets. This statement is similar to the balance sheet of a private sector business. Over time, increases or decreases in net assets 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 assets 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 (20) individual governmental funds in 2009. The City's General fund is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are combined into a single column labeled

“Other Governmental Funds”. Information for each of the non-major governmental funds is provided in the combining statements in this report.

The City maintains budgetary control over its operating funds through the adoption of an annual budget. Budgets are adopted at the fund level in accordance with City code and state law. A budgetary comparison statement is presented for the general fund in 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 six (5) enterprise funds are used to report the same functions presented as business-type activities in the government-wide statements with the fund statements providing more detail than is reported in the government-wide statements. The enterprise fund statements provide separate information for the City’s municipal golf course, water and wastewater utilities. The remaining enterprise funds are combined into a single column labeled “Other Proprietary Funds”. Information for each of the non-major enterprise funds is provided in the combining statements in this report.

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

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

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

Government-wide Financial Analysis

Statement of net assets

The statement of net assets can serve as a useful indicator of the City’s financial position. The City’s net assets at December 31, 2009 total \$229.2 million. Following is a condensed version of the government-wide statement of net assets. The City presents its financial statements under the new reporting model required by Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Two years of financial information in the GASB 34 format are presented.

Net Assets

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2009	2008	Difference	2009	2008	Difference	2009	2008	Difference
Current Assets	\$ 14,231	\$ 13,342	\$ 889	\$ 19,124	\$ 24,364	\$ (5,240)	\$ 33,355	\$ 37,706	\$ (4,351)
Restricted Assets	3,111	2,683	428	1,620	4,329	(2,709)	4,731	7,012	(2,281)
Capital Assets	98,648	97,180	1,468	163,959	147,222	16,737	262,607	244,402	18,205
Other Noncurrent Assets	521	461	60	1,364	1,488	(124)	1,885	1,949	(64)
Total assets	116,511	113,666	2,845	186,067	177,403	8,664	302,578	291,069	11,509
Current Liabilities	4,860	5,169	(309)	5,800	6,388	(588)	10,660	11,557	(897)
Deposits Payable from Restricted Assets				25	35	(10)	25	35	(10)
Noncurrent Liabilities	27,293	28,396	(1,103)	35,351	36,268	(917)	62,644	64,664	(2,020)
Total liabilities	32,153	33,565	(1,412)	41,176	42,691	(1,515)	73,329	76,256	(2,927)
Net assets									
Invested in capital assets, net of related debt	72,088	69,602	2,486	122,330	106,248	16,082	194,418	175,850	18,568
Restricted	3,111	2,683	428	1,175	3,989	(2,814)	4,286	6,672	(2,386)
Unrestricted	9,159	7,816	1,343	21,386	24,475	(3,089)	30,545	32,291	(1,746)
Total net assets	\$ 84,358	\$ 80,101	\$ 4,257	\$ 144,891	\$ 134,712	\$ 10,179	\$ 229,249	\$ 214,813	\$ 14,436

The largest component of the City's net assets, \$194.4 million (or 84.8%), is its investment in capital assets less any related outstanding debt issued to acquire those assets. These capital assets, such as utility plant, streets, trails, parks, fire and police vehicles, are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

Restricted net assets consist of amounts legally or otherwise externally restricted for debt service and other programs. Of the \$3.1 million of governmental restricted assets, \$1.4 million, or 83.3% is restricted for use in the Community Development Block Grant program (44%) and for law enforcement services (39.2%). Of the \$1.2 million of business-type restricted assets, 90.1% are required reserves for debt service payments. A total of \$21.4 million represents the unrestricted net assets of the City's business-type activities and may only be spent on golf course operations, water, wastewater and stormwater utility activities. Maintenance of utility delivery systems (water lines, pump station, wells), storm drain flushing, water meter reading, and capital construction projects, such as well rehabilitation, are examples of utility activities. Other functions of the City may access the remaining net assets of \$9.1 million to meet ongoing obligations to citizens and creditors. Examples of other City obligations which these net assets may be used for are: public safety employee salaries, parks maintenance (mowing, fence repair, etc), and ongoing street maintenance (street sweeping, restriping, resurfacing, etc).

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

Changes in net assets

The changes in net assets table illustrates the increases or decreases in net assets of the City resulting from its operating activities. The City's overall financial position improved in 2009 with net assets increasing approximately \$9.3 million. Net assets of governmental activities increased by \$4.3 million and the net assets of business-type activities increased by \$5.1 million.

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

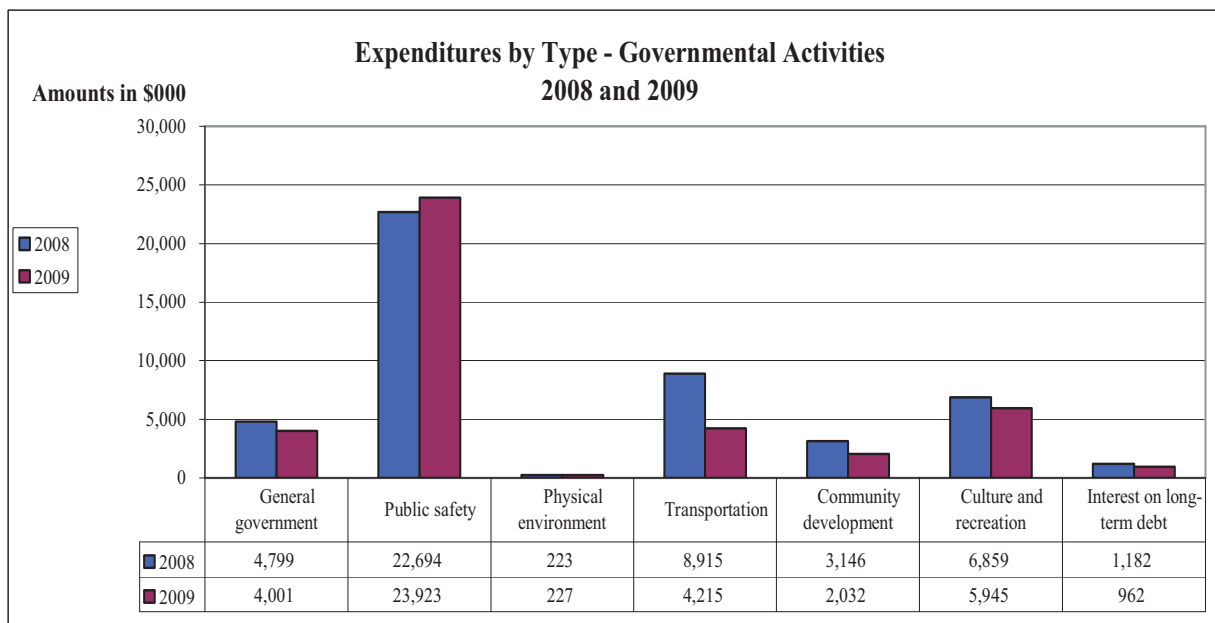
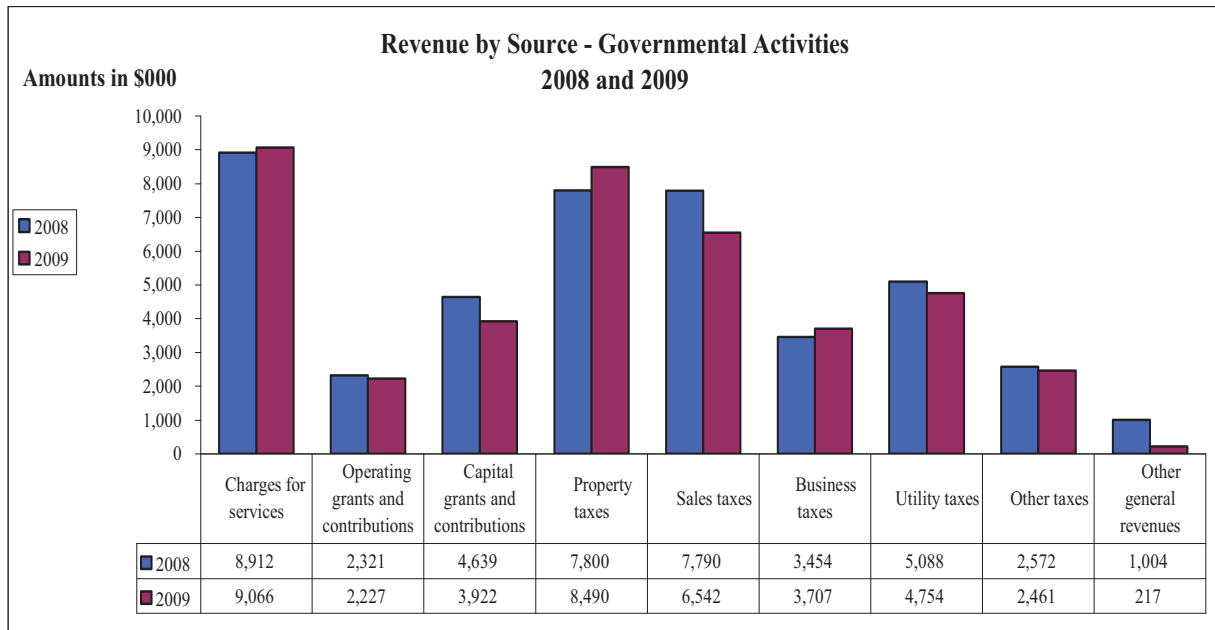
Changes in Net Assets

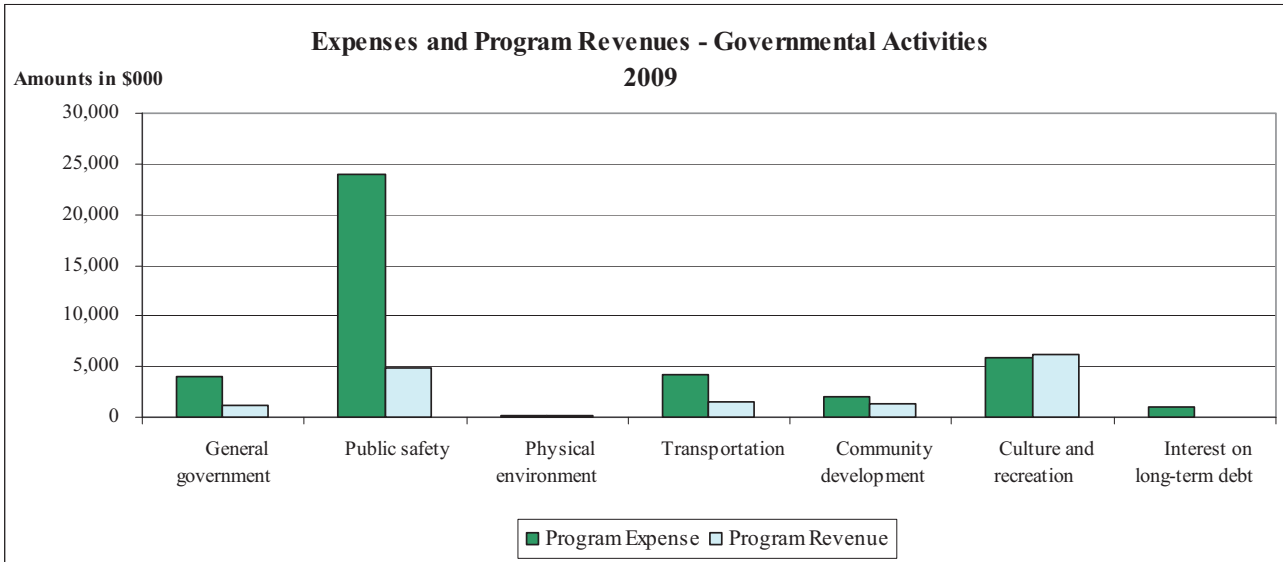
Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2009	2008	Difference	2009	2008	Difference	2009	2008	Difference
Revenues									
Program revenues									
Charges for services	\$ 9,066	\$ 8,912	\$ 154	\$ 27,620	\$ 26,764	\$ 856	\$ 36,686	\$ 35,676	\$ 1,010
Operating grants and contributions	2,227	2,321	(94)	34	235	(201)	2,261	2,556	(295)
Capital grants and contributions	3,922	4,639	(717)	3,882	8,449	(4,567)	7,804	13,088	(5,284)
General revenues									
Property taxes	8,490	7,800	690	-	-	-	8,490	7,800	690
Sales taxes	6,542	7,790	(1,248)	15	22	(7)	6,557	7,812	(1,255)
Business taxes	3,707	3,454	253	-	-	-	3,707	3,454	253
Utility taxes	4,754	5,088	(334)	-	-	-	4,754	5,088	(334)
Other taxes	2,461	2,572	(111)	-	-	-	2,461	2,572	(111)
Other general revenues	217	1,004	(787)	557	1,006	(449)	774	2,010	(1,236)
Total revenues	\$ 41,386	\$ 43,580	\$ (2,194)	\$ 32,108	\$ 36,476	\$ (4,368)	\$ 73,494	\$ 80,056	\$ (6,562)
Expenses									
Governmental activities									
General government	4,001	4,799	(798)	-	-	-	4,001	4,799	(798)
Public safety	23,923	22,694	1,229	-	-	-	23,923	22,694	1,229
Physical environment	227	223	4	-	-	-	227	223	4
Transportation	4,215	8,915	(4,700)	-	-	-	4,215	8,915	(4,700)
Community development	2,032	3,146	(1,114)	-	-	-	2,032	3,146	(1,114)
Culture and recreation	5,945	6,859	(914)	-	-	-	5,945	6,859	(914)
Interest on long-term debt	962	1,182	(220)	-	-	-	962	1,182	(220)
Business-type activities									
Water				9,243	9,073	170	9,243	9,073	170
Wastewater				8,927	9,012	(85)	8,927	9,012	(85)
Golf course				3,198	3,265	(67)	3,198	3,265	(67)
Other proprietary funds				1,478	1,329	149	1,478	1,329	149
Total expenses	\$ 41,305	\$ 47,818	\$ (6,513)	\$ 22,846	\$ 22,679	\$ 167	\$ 64,151	\$ 70,497	\$ (6,346)
Excess of revenues over expenses	81	(4,238)	4,319	9,262	13,797	(4,535)	9,343	9,559	(216)
Transfers	4,176	1,973	2,203	(4,176)	(1,973)	(2,203)	-	-	-
Change in net assets	4,257	(2,265)	6,522	5,086	11,824	(6,738)	9,343	9,559	(216)
Net assets - beginning	85,912	82,507	3,405	128,901	123,594	5,307	214,813	206,101	8,712
Prior period adjustment	(5,811)	(141)	(5,670)	10,904	(706)	11,610	5,093	(847)	5,940
Net assets - ending	\$ 84,358	\$ 80,101	\$ 4,257	\$ 144,891	\$ 134,712	\$ 10,179	\$ 229,249	\$ 214,813	\$ 14,436

Governmental activities accounted for an increase of \$4.3 million of the total change in net assets of \$8.6 million. Significant elements of the increase are as follows:

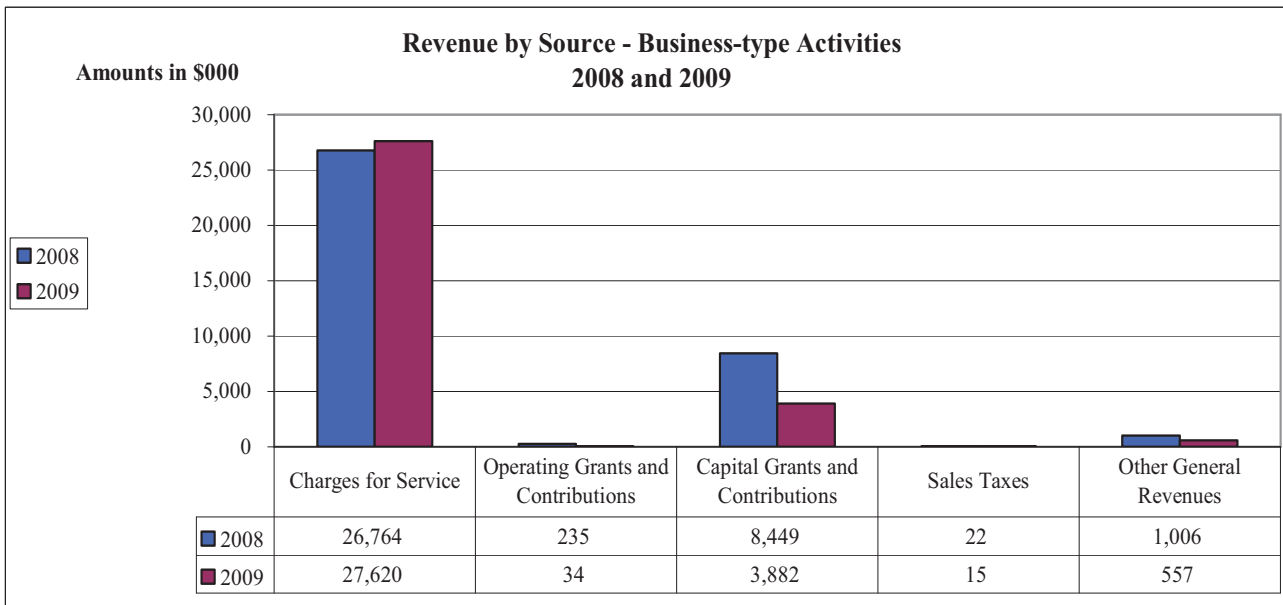
- Expenditures decreased by \$6.3 million in 2009 compared to 2008. While reductions occurred in several functional areas, as a significant effort was made to offset lower tax revenues, the most significant reductions occurred in the areas of Transportation and Community Development. Transportation expenses decreased \$4.7 million most notably from the completion of the SR304 construction project. Program expenditures related to the Community Development Block Grant program decreased by \$1.1 million.

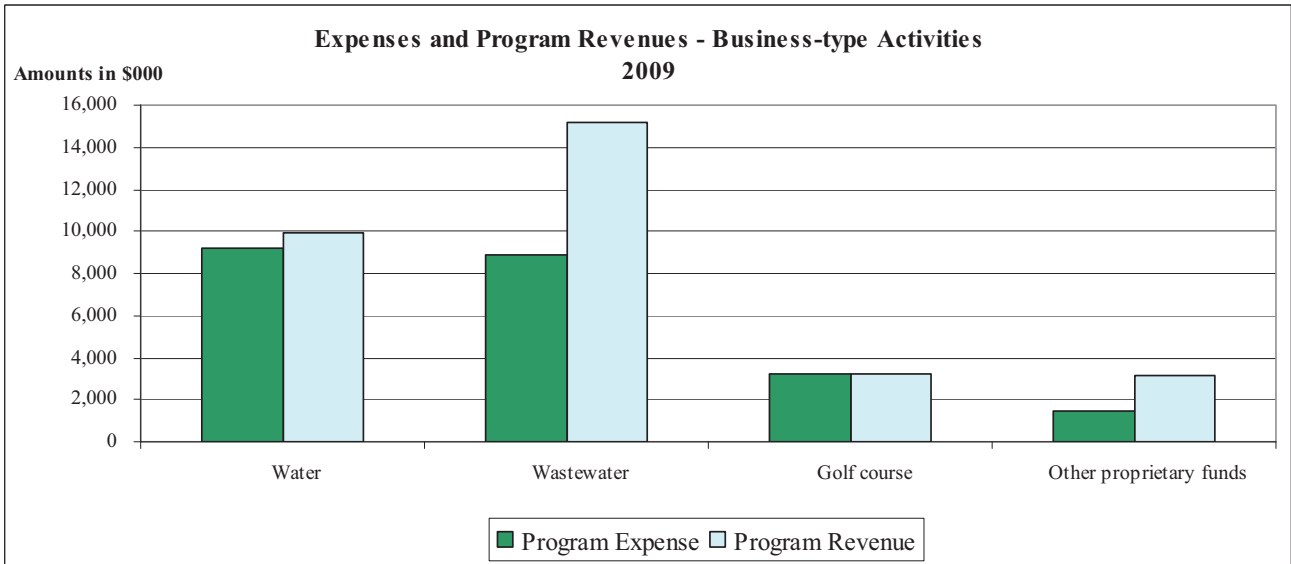
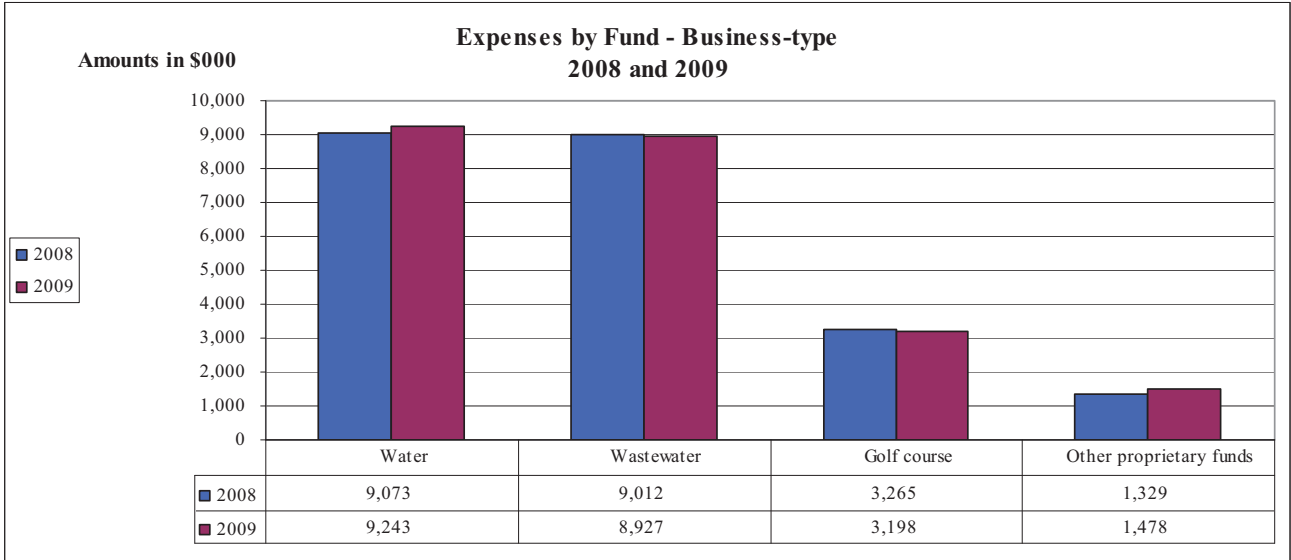
- Total revenue from governmental activities decreased by \$2.2 million. Tax revenues that support ongoing operations decreased by \$.75 million in 2009 from the 2008 level with decreased collections in sales, utility and other taxes. Capital Grants and Contributions decreased \$.72 million from 2008 due primarily to the completion of the SR304 road construction project. Other general revenues which include interest earnings, gains on disposal of assets, and miscellaneous income, decreased by \$.8 million in 2009 from the 2008 level. The largest components of this decrease were lower investment earnings (\$.5M) and a reduction in asset disposals (\$.3M).
- Transfers from Business-type activities increased \$2.2 million primarily from a return of equipment replacement reserves from the Equipment Rental Reserve fund (\$1M) and an additional one time levy of payments in lieu of tax from the city's own utilities (\$.6M)

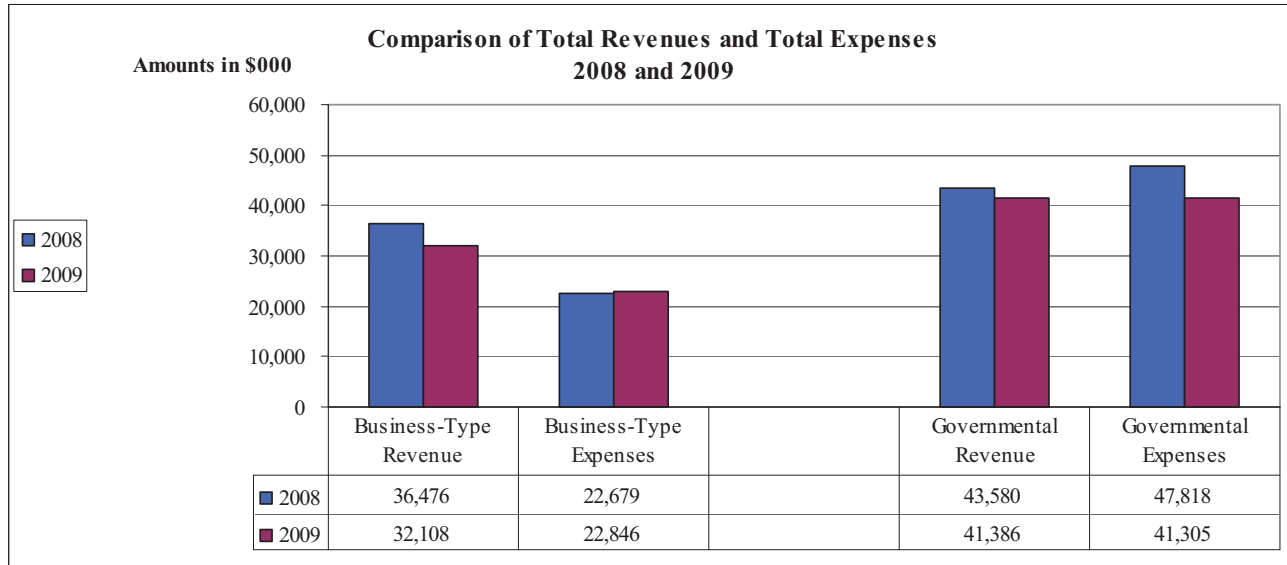




- Business-type activities** increased City's net assets by \$5.1 million accounting for 54% of the total growth in the government's net assets. A key element of this increase is in capital grants and contributions which decreased \$4.6 million in 2009 but continued to be a significant revenue source. Capital grants and contributions, recognized in 2009, of \$3.9M for system additions included \$2.3M of developer contributions necessary to extend water to the McCormick Woods area and provide utilities to the Eastpark development.







Financial Analysis of the City's Funds

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

Governmental funds

The General Fund is the primary operating fund of the City through which all receipts and payments of ordinary City operations are processed, unless they are required to be accounted for in another fund. Taxes are the major revenue source. At the end of 2009, the fund balance of the General Fund was \$1.96 million. As a measure of the fund's liquidity, the ending fund balance is 5.8% of the fund's 2009 expenditures.

The General Fund balance increased in 2009 by \$.6 million. Revenues increased from \$29.9 million in 2008 to \$30.6 million in 2009. Expenditures decreased from \$33.9 million to \$33.7 million during the same period. Expenditures exceeded revenues in the General Fund by \$3.1 million in 2009 but were offset by net transfers in of \$3.7 million.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Other than accomplishing the programs identified in the 2009 capital improvement program there were no significant transactions pertaining to the water, wastewater and stormwater utilities. Of significance in the Golf Course fund was the refunding of two outstanding general obligation bonds. The issue of \$5.4 million in taxable general obligation bonds reduces annual debt service requirements and provides flexibility over operations of the golf course that did not exist with the existing tax exempt bonds. Significant balances of capital assets and debt are addressed below.

General Fund Budget Variations

The General Fund collected revenues at 97.7% of the amount budgeted or \$.72 million less than budgeted. Expenditures for 2009 were 95.4% of the budget resulting in actual expenditures being \$1.6 million less than the budgeted amount. The negative revenue budget variance is substantially attributable to a delay in receipt of intergovernmental revenues related to a multi-jurisdictional police equipment grant and decreased miscellaneous revenues. The positive expenditure budget variance is largely attributable to the decreased pass through

expenditures to sub recipients on the police equipment grant and decreased expenditures for supplies and services across the General Fund in recognition of the decline in economic activity resulting in decreased revenues.

The General Fund budget was balanced in 2009 and provided for a slight increase to the fund balance in the amount of \$.35 million. At the conclusion of 2009, the General Fund increased fund balance by \$.6 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, 2009, amounts to \$262.6 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, construction in progress, utility transmission/distribution systems, and roads.

The major capital assets changes for governmental activities during 2009 were the completion of the Memorial Plaza and Commons in downtown Bremerton, the completion of Blueberry Park and continuation of Evergreen Park expansion and remediation.

The major capital assets changes for business-type activities included the construction of wastewater and water capital improvement projects identified within the City’s 2009 capital improvement plan.

Capital Assets for all activities increased \$5.1 million in 2009 as a result of prior year corrections. A change in reporting of the City’s Equipment Rental Reserve internal service fund in 2009 contributed increased Business-type activities by \$2.8 million with a corresponding decrease of Governmental Activities. Business-type Activities increased \$5.1 million as a result of a correction for an overstatement of depreciation in the city’s three utilities.

Capital Assets (net of depreciation)

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2009	2008	Difference	2009	2008	Difference	2009	2008	Difference
Land	\$ 15,472	\$ 15,052	\$ 420	\$ 8,138	\$ 7,999	\$ 139	\$ 23,610	\$ 23,051	\$ 559
Buildings	47,290	46,131	1,159	31,469	31,705	(236)	78,759	77,836	923
Improvements/Infrastructure	26,688	25,595	1,093	82,453	75,997	6,456	109,141	101,592	7,549
Machinery and Equipment	4,301	4,527	(226)	24,644	23,247	1,397	28,945	27,774	1,171
Construction in Progress	4,897	5,875	(978)	17,255	13,367	3,888	22,152	19,242	2,910
TOTAL	\$ 98,648	\$ 97,180	\$ 1,468	\$ 163,959	\$ 152,315	\$ 11,644	\$ 262,607	\$ 249,495	\$ 13,112

Additional information on the City’s capital assets can be found in Note 6 and Note 17.

Long-term debt

New debt for business-type activities in 2009 consisted of \$5,373,000 of general obligation refunding bonds to retire two prior issues for construction of a second course and clubhouse at the Gold Mountain Golf Course and \$1,097,019 of intergovernmental loans to fund Water/Wastewater capital improvement projects identified within the utilities’ capital improvement plan. There was no new debt for governmental activities added in 2009. The long-term debt principal paid off in 2009 totaled \$9,018,596.

Outstanding Debt - General Obligation and Revenue Bonds

Amounts in 000's	Governmental Activities			Business-Type Activities			Total		
	2009	2008	Difference	2009	2008	Difference	2009	2008	Difference
General obligation bonds	\$ 21,474	\$ 22,350	\$ (876)	\$ 5,373	\$ 5,075	\$ 298	\$ 26,847	\$ 27,425	\$ (578)
Revenue bonds	5,245	5,405	(160)	4,590	4,910	(320)	9,835	10,315	\$ (480)
Revenue loans	-	-	-	28,543	29,204	(661)	28,543	29,204	\$ (661)
Total	\$ 26,719	\$ 27,755	\$ (1,036)	\$ 38,506	\$ 39,189	\$ (683)	\$ 65,225	\$ 66,944	\$ (1,719)

Additional Information on the City's long-term debt can be found in Note 9 of this report.

Economic Factors and Next Years Budgets and Rates

Several factors that affect the economic climate in Bremerton were considered when preparing the City's 2010 annual budget. The outlook for the nation, state and region was weighed in relation to its expected impact on Bremerton. The character of the City, including its current and future business activity and its attraction as a place to live, was evaluated. The current financial position and the ability of the City to recover from its history of economic depression have improved due to the major effort to rehabilitate Bremerton's downtown core and attract new investors to the community however, the national, regional and local economic conditions continued to show considerable weakness during 2009 and are expected to continue through 2010 and possibly beyond.

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

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

Of the multi-year plans to revitalize Bremerton, the following are completed as of December 2009; the Harborside Conference Center, Hotel and Plaza, Bremerton Ice Arena, Kitsap Credit Union Headquarters/Office building, downtown Naval Parking Garage, waterfront condominiums, Harborside Fountain Park and Naval Museum, downtown police station, Norm Dicks Government Center building, downtown fire station, downtown marina facility, the Downtown Pedestrian Bremerton Transit Center Access and the PSNS Memorial Plaza. Construction of a 130 room Fairfield Inn was close to completion at 2009 year end with opening scheduled for January of 2010. The development of a significant housing development in East Park is currently underway.

Projects that are in the preliminary stages include; the Boardwalk Project, West Park mixed use redevelopment project, revitalization of Lions Park, a new Municipal Court facility and the construction of two subsurface and two above-grade parking areas to serve PSNS workers, retail, businesses and visitors to memorial Plaza and Harborside Fountain Park.

These projects that are occurring throughout Bremerton are a product of both public and private investment. Economic development is a critical component of achieving a recovery from years of economic depression and to mitigate for the revenue losses incurred over the past several years from statewide initiatives. Initiative 695 and 747 resulted in losses of ongoing revenues and limited property tax growth for Washington cities, including Bremerton. These statewide initiatives have impacted current and future revenues that fund the City of Bremerton's

governmental services. The ability of Bremerton to provide sufficient funding for future core government services will be impacted by the success of its economic development efforts, however, these efforts alone will be insufficient to fund these core services without the identification and implementation of additional revenue sources.

The City concluded a major utility rate study in 2004 which was focused on establishing a new utility rate structure and general facility charges at levels sufficient to cover the cost of operation of the water, wastewater and stormwater utilities, coverage for debt obligations and payment of capital improvement projects. The study resulted in the development of a multi-year plan for increasing rates and implementing significant increases in general facility charges to cover the cost of new capital improvements. Upon the conclusion of this study, the City Council approved the utility rate increase plan with the adoption of an ordinance that included a provision in the City's municipal code to automatically escalate fees for the three city utilities using the Seattle CPI on an annual basis unless a larger increase is authorized by the City Council. This provision ensures the three utilities are adequately funded in compliance with the City's adopted financial goals and policies. Utility system rates were increased based upon the Seattle-Tacoma-Bremerton CPI effective January 1, 2009 in accordance with this provision. Rates were not increased January 1, 2010 pending the results of a planned update to this study.

Requests for information

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

Statement of Net Assets

December 31, 2009

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Current assets:			
Cash & investments	11,244,492	12,440,913	23,685,405
External receivables	3,638,442	4,556,051	8,194,493
Interest receivable	22,447	24,701	47,148
Internal balances	(1,109,724)	1,109,724	-
Due from other governments	274,798	157,109	431,907
Inventories	134,390	835,780	970,170
Prepayments	25,820	-	25,820
Total current assets	<u>14,230,665</u>	<u>19,124,278</u>	<u>33,354,943</u>
Restricted assets:			
Cash & investments	2,117,869	1,323,482	3,441,351
External receivables	903,145	296,077	1,199,222
Due from other governments	90,274	-	90,274
Total restricted assets	<u>3,111,288</u>	<u>1,619,559</u>	<u>4,730,847</u>
Noncurrent assets:			
Notes and contracts receivable	-	574,572	574,572
Capital assets net of depreciation	98,647,860	163,959,552	262,607,412
Other noncurrent assets	520,981	789,526	1,310,507
Total noncurrent assets	<u>99,168,841</u>	<u>165,323,650</u>	<u>264,492,491</u>
Total assets	<u>\$ 116,510,794</u>	<u>\$ 186,067,487</u>	<u>\$ 302,578,281</u>
Liabilities			
Current liabilities:			
Claims/contracts payable	\$ 1,515,272	\$ 1,674,417	\$ 3,189,689
Matured long term obligations	-	25,000	25,000
Due to other governments	20,981	2,616	23,597
Employee wages payable	2,409,543	822,503	3,232,046
Other accrued liabilities	142,237	238,242	380,479
Current portion of long term debt	771,500	3,029,679	3,801,179
Custodial accounts	-	7,660	7,660
Total current liabilities	<u>4,859,533</u>	<u>5,800,117</u>	<u>10,659,650</u>
Payable from restricted assets:	-	25,421	25,421
Noncurrent liabilities:			
Claims and judgements payable	1,069,164	-	1,069,164
Bonds, notes and loans payable	26,029,324	35,307,331	61,336,655
Other non current liabilities	194,663	43,760	238,423
Total noncurrent liabilities	<u>27,293,151</u>	<u>35,351,091</u>	<u>62,644,242</u>
Total liabilities	<u>\$ 32,152,684</u>	<u>\$ 41,176,629</u>	<u>\$ 73,329,313</u>
Net Assets			
Invested in capital assets net of related debt	\$ 72,087,573	\$ 122,329,665	\$ 194,417,238
Restricted for:			
Tourism promotion & facilities	38,568	-	38,568
Parking system	297,722	-	297,722
Community development block grant	1,369,967	-	1,369,967
Public safety	1,221,480	-	1,221,480
Debt service	-	1,174,604	1,174,604
Workers compensation	100,000	-	100,000
Capital projects	83,551	-	83,551
Unrestricted	<u>9,159,249</u>	<u>21,386,589</u>	<u>30,545,838</u>
Total Net Assets	<u>\$ 84,358,110</u>	<u>\$ 144,890,858</u>	<u>\$ 229,248,968</u>

See accompanying notes to the financial statements

Statement of Activities
For the Year Ended December 31, 2009

Function/Program	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental activities:							
General government	\$ 4,001,383	\$ 1,122,147	\$ 12,088	\$ -	\$ (2,867,148)	\$ -	\$ (2,867,148)
Public safety	23,922,957	3,337,372	1,505,271	67,701	(19,012,613)	-	(19,012,613)
Physical environment	226,975	100,322	-	7,032	(119,621)	-	(119,621)
Transportation	4,214,922	1,507,102	131	64,501	(2,643,188)	-	(2,643,188)
Community development	2,031,753	599,452	709,478	-	(722,823)	-	(722,823)
Culture and recreation	5,944,853	2,399,362	-	3,782,770	237,279	-	237,279
Interest on long-term debt	961,926	-	-	-	(961,926)	-	(961,926)
Total governmental activities	41,304,769	9,065,757	2,226,968	3,922,004	(26,090,040)	-	(26,090,040)
Business-type activities							
Water	9,242,707	8,879,694	210	1,096,640	-	733,837	733,837
Wastewater	8,927,299	13,352,793	-	1,817,969	-	6,243,463	6,243,463
Golf course	3,198,390	3,271,998	-	-	-	73,608	73,608
Other proprietary funds	1,478,026	2,115,506	34,131	967,681	-	1,639,292	1,639,292
Total business-type activities	22,846,422	27,619,991	34,341	3,882,290	-	8,690,200	8,690,200
Total government	\$ 64,151,191	\$ 36,685,748	\$ 2,261,309	\$ 7,804,294	\$ (26,090,040)	\$ 8,690,200	\$ (17,399,840)
General Revenues							
Taxes							
Property					8,490,418	-	8,490,418
Sales					6,541,673	14,678	6,556,351
Business					3,706,834	-	3,706,834
Utility					4,753,803	-	4,753,803
Other					2,461,170	-	2,461,170
Unrestricted investment interest					188,550	211,598	400,148
Miscellaneous					68,750	346,868	415,618
Gain on disposal of capital assets					(39,542)	(1,472)	(41,014)
Transfers, internal activities					4,175,924	(4,175,924)	-
Total general revenues and transfers					30,347,580	(3,604,252)	26,743,328
Change in net assets					4,257,540	5,085,948	9,343,488
Net assets-beginning					85,911,876	128,900,769	214,812,645
Prior period adjustment (Note 17)					(5,811,306)	10,904,141	5,092,835
Net assets-ending					\$ 84,358,110	\$ 144,890,858	\$ 229,248,968

See accompanying notes to the financial statements

Balance Sheet
Governmental Funds
December 31, 2009

	General	Other Governmental Funds	Total Governmental Funds
Assets	\$	\$	\$
Cash & investments	1,980,237	8,879,905	10,860,142
External receivables	3,161,845	507,930	3,669,775
Due from other funds	418,229	339,045	757,274
Due from other governments	136,875	228,197	365,072
Inventories	-	49,955	49,955
Notes/contracts - deferred	-	866,812	866,812
Total assets	5,697,186	10,871,844	16,569,030
Liabilities and Fund Balances			
Liabilities:			
Claims/contracts payable	520,228	356,252	876,480
Due to other funds	862,858	827,078	1,689,936
Due to other governments	-	19,337	19,337
Employee wages payable	813,139	184,725	997,864
Other current liabilities	-	97,382	97,382
Deferred revenues	1,543,653	917,926	2,461,579
Total liabilities	3,739,878	2,402,700	6,142,578
Fund balances:			
Reserved for:			
Inventories	-	49,955	49,955
Paths and trails	-	59,306	59,306
Equipment replacement	-	241,497	241,497
Unreserved, reported in:			
General fund	1,957,308	-	1,957,308
Debt service funds	-	262,834	262,834
Special revenue funds	-	5,758,691	5,758,691
Capital projects funds	-	2,096,861	2,096,861
Total fund balances	1,957,308	8,469,144	10,426,452
Total liabilities and fund balances	5,697,186	10,871,844	16,569,030

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

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	98,647,860
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. (Note 2)	3,000,518
Internal service funds are used by management to charge the costs of certain activities to individual funds. These assets and liabilities are included in governmental activities in the statement of net assets.	634,376
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 2)	(28,351,096)
Net assets of governmental activities	\$ 84,358,110

See accompanying notes to the financial statements.

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

For the Year Ended December 31, 2009

	General Fund	Other Governmental Funds	Governmental Funds Total
	<u> </u>	<u> </u>	<u> </u>
Revenues			
Taxes	\$ 22,148,493	\$ 2,110,769	\$ 24,259,262
Licenses and permits	932,476	242,442	1,174,918
Intergovernmental	2,662,154	5,463,933	8,126,087
Charges for services	2,998,859	2,189,931	5,188,790
Fines and forfeits	1,486,078	443,758	1,929,836
Miscellaneous	357,081	1,279,438	1,636,519
Total revenues	<u>30,585,141</u>	<u>11,730,271</u>	<u>42,315,412</u>
Expenditures			
Current			
General government	6,461,037	332,165	6,793,202
Public safety	21,897,389	325,062	22,222,451
Utilities and environment	220,142	6,833	226,975
Transportation	381,852	2,990,898	3,372,750
Economic environment	1,242,384	708,033	1,950,417
Mental/physical health	74,922	-	74,922
Culture and recreation	2,759,296	1,788,995	4,548,291
Debt service:			
Principal	127,500	908,000	1,035,500
Interest and other debt issue costs	289,509	656,935	946,444
Capital	246,206	4,628,452	4,874,658
Total expenditures	<u>33,700,237</u>	<u>12,345,373</u>	<u>46,045,610</u>
Excess (deficiency) of revenues over expenditures	<u>(3,115,096)</u>	<u>(615,102)</u>	<u>(3,730,198)</u>
Other financing sources (uses)			
Fixed assets donations & disposal	2,275	396,484	398,759
Insurance Recoveries	14,213	451	14,664
Transfers in	4,718,438	2,697,372	7,415,810
Transfers out	(994,739)	(2,245,147)	(3,239,886)
Total other financing sources and uses	<u>3,740,187</u>	<u>849,160</u>	<u>4,589,347</u>
Other changes in fund balance			
Net change in fund balances	625,091	234,058	859,149
Fund balances-beginning	1,332,216	8,235,086	9,567,302
Fund balances-ending	<u>\$ 1,957,307</u>	<u>\$ 8,469,144</u>	<u>\$ 10,426,451</u>

See accompanying notes to the financial statements.

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

For the Year Ended December 31, 2009

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

Net change in fund balances – total government funds	\$ 859,149
Governmental funds report capital outlays as expenditures, however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,497,852
Revenues and expenses in the statement of activities that do not provide current financial resources are not reported in the funds.	276,309
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,018,034
Internal service funds are used by management to charge the costs of fleet replacement and risk management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>606,196</u>
Change in net assets of governmental activities	<u>\$ 4,257,540</u>

The notes to the financial statement are an integral part of this statement.

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

For the Year Ended December 31, 2009

	Original Budget 2009	Final Budget 2009	Actual 2009	Variance with Final Budget Positive (Negative)
Revenues				
Taxes				
Property	\$ 7,679,504	\$ 7,079,504	\$ 7,396,243	\$ 316,739
Sales	7,916,055	6,716,055	6,541,673	(174,382)
Other	9,676,667	7,976,667	8,210,577	233,910
Licenses and permits	888,100	767,100	932,476	165,376
Intergovernmental	3,896,349	3,651,349	2,662,154	(989,195)
Charges for services	3,034,787	2,859,787	2,998,859	139,072
Fines and forfeits	1,632,170	1,457,170	1,486,078	28,908
Miscellaneous	392,105	1,294,105	857,081	(437,024)
Total revenues	<u>35,115,737</u>	<u>31,801,737</u>	<u>31,085,141</u>	<u>(716,596)</u>
Expenditures				
Current				
General government	7,005,633	6,702,933	6,461,037	241,896
Public Safety	24,143,539	23,214,139	21,897,389	1,316,750
Utilities and Environment	228,324	228,324	220,142	8,182
Transportation	396,074	375,774	381,852	(6,078)
Economic environment	1,334,101	1,311,001	1,242,384	68,617
Mental/physical health	78,921	78,921	74,922	3,999
Culture and recreation	3,019,207	2,864,607	2,759,296	105,311
Debt service principal	134,550	134,550	136,862	(2,312)
Interest and other debt issue costs	295,470	295,470	289,509	5,961
Capital	115,320	127,320	246,206	(118,886)
Total expenditures	<u>36,751,139</u>	<u>35,333,039</u>	<u>33,709,599</u>	<u>1,623,440</u>
Excess (deficiency) of revenues over expenditures	<u>(1,635,402)</u>	<u>(3,531,302)</u>	<u>(2,624,458)</u>	<u>906,844</u>
Other Financing Sources (Uses)				
Fixed asset donations & disposal	-	-	2,275	2,275
Insurance Recoveries	-	-	14,213	14,213
Transfers in	2,679,798	5,040,798	4,718,438	(322,360)
Transfers out	(965,116)	(1,160,216)	(994,739)	165,477
Total other financing sources and uses	<u>1,714,682</u>	<u>3,880,582</u>	<u>3,740,187</u>	<u>(140,395)</u>
Other Changes in Fund Balance				
Net change in fund balances	79,280	349,280	1,115,729	766,449
Fund balances-beginning	3,121,630	2,354,095	1,539,436	(814,659)
Fund balances-ending	<u>\$ 3,200,910</u>	<u>\$ 2,703,375</u>	<u>\$ 2,655,165</u>	<u>\$ (48,210)</u>

See accompanying notes to the financial statements

Statement of Net Assets
Proprietary Funds

December 31, 2009

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Other Proprietary Funds	Total	Internal Service Funds
Assets						
Current assets:						
Cash & investments	\$ 3,514,416	\$ 385,754	\$ 2,042,659	\$ 1,964,942	\$ 7,907,771	\$ 6,935,361
External receivables	1,501,523	4,450	2,595,242	454,836	4,556,051	5,000
Interest receivable	6,419	692	5,928	3,526	16,565	12,625
Due from other funds	550,438	-	1,175	-	551,613	778,247
Due from other governments	29,324	-	126,712	1,073	157,109	-
Inventories	579,795	-	255,985	-	835,780	84,435
Prepayments	-	-	-	-	-	25,820
Total current assets	<u>6,181,915</u>	<u>390,896</u>	<u>5,027,701</u>	<u>2,424,377</u>	<u>14,024,889</u>	<u>7,841,488</u>
Restricted assets:	<u>355,778</u>	<u>-</u>	<u>1,260,861</u>	<u>-</u>	<u>1,616,639</u>	<u>102,920</u>
Noncurrent assets:						
Notes and contracts receivable	574,572	-	-	-	574,572	-
Capital assets net of depreciation	56,367,169	7,501,085	90,900,201	4,134,668	158,903,123	5,119,153
Other noncurrent assets	573,104	24,941	191,481	-	789,526	-
Total noncurrent assets	<u>57,514,845</u>	<u>7,526,026</u>	<u>91,091,682</u>	<u>4,134,668</u>	<u>160,267,221</u>	<u>5,119,153</u>
Total assets	\$ <u>64,052,538</u>	\$ <u>7,916,922</u>	\$ <u>97,380,244</u>	\$ <u>6,559,045</u>	\$ <u>175,908,749</u>	\$ <u>13,063,561</u>
Liabilities						
Current liabilities:						
Claims/contract payable	\$ 714,304	\$ 49,673	\$ 663,941	\$ 14,378	\$ 1,442,296	\$ 305,913
Matured long term obligations	-	-	25,000	-	25,000	-
Due to other funds	67,664	198	128,435	22,434	218,731	178,467
Other accrued liabilities	260,751	1,268	299,325	59,405	620,749	43,539
Current portion of long term debt	608,283	105,000	2,306,532	9,864	3,029,679	565,000
Custodial accounts	3,843	3,817	-	-	7,660	-
Total current liabilities	<u>1,654,845</u>	<u>159,956</u>	<u>3,423,233</u>	<u>106,081</u>	<u>5,344,115</u>	<u>1,092,919</u>
Payable from restricted assets:	25,421	-	-	-	25,421	-
Noncurrent liabilities:						
Claims and judgements payable	-	-	-	-	-	1,069,164
Bonds, notes and loans payable	6,542,557	4,987,441	23,639,234	138,099	35,307,331	-
Compensated absences	226,967	-	187,007	72,253	486,227	59,175
Total noncurrent liabilities	<u>6,769,524</u>	<u>4,987,441</u>	<u>23,826,241</u>	<u>210,352</u>	<u>35,793,558</u>	<u>1,128,339</u>
Total liabilities	<u>8,449,790</u>	<u>5,147,397</u>	<u>27,249,474</u>	<u>316,433</u>	<u>41,163,094</u>	<u>2,221,258</u>
Net Assets						
Invested in capital assets, net of related debt	49,216,329	2,408,644	61,665,742	3,982,521	117,273,236	5,119,153
Restricted for capital assets	-	-	-	-	-	-
Restricted for debt service	37,200	-	1,137,404	-	1,174,604	-
Unrestricted	<u>6,349,219</u>	<u>360,881</u>	<u>7,327,624</u>	<u>2,260,091</u>	<u>16,297,815</u>	<u>5,723,150</u>
Total net assets	\$ <u>55,602,748</u>	\$ <u>2,769,525</u>	\$ <u>70,130,770</u>	\$ <u>6,242,612</u>	\$ <u>134,745,655</u>	\$ <u>10,842,303</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					10,145,203	
Net assets of business-type activities					<u>\$ 144,890,858</u>	

See accompanying notes to the financial statements.

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds

For the Year Ended December 31, 2009

	Business-type Activities					Governmental Activities Internal Service Funds
	Enterprise Funds				Total	
	Water	Golf Course	Wastewater	Other Proprietary Funds		
Operating revenues:						
Charges for services	\$ 8,386,515	\$ 3,194,181	\$ 13,367,471	\$ 2,115,505	\$ 27,063,672	\$ 4,675,630
Interest & dividend income	-	-	-	-	-	8,347
Other operating revenue	493,389	77,817	-	34,131	605,337	11,547
Total operating revenues	8,879,904	3,271,998	13,367,471	2,149,636	27,669,009	4,695,524
Operating expenses:						
General operations	1,778,750	1,602,668	2,496,330	428,237	6,305,985	2,513,240
Maintenance	2,832,032	1,179,192	1,919,495	824,841	6,755,560	-
Customer service and marketing	405,002	-	278,154	42,720	725,876	-
General administration	1,061,925	48,218	844,945	195,286	2,150,374	245,503
Depreciation and amortization	1,635,708	125,447	2,391,078	67,831	4,220,064	741,056
Property, excise and B&O taxes	474,936	17,644	385,016	(131,757)	745,839	-
Risk transfer payments	-	-	-	-	-	450,666
Payments to claimants & beneficiaries	-	-	-	-	-	375,317
Other operating expenses	683,921	-	-	-	683,921	49,325
Total operating expenses	8,872,274	2,973,169	8,315,018	1,427,158	21,587,619	4,375,107
Operating income (loss)	7,630	298,829	5,052,453	722,478	6,081,390	320,417
Nonoperating revenues (expenses)						
Interest and investment revenue	89,209	1,782	39,987	31,915	162,893	56,024
Interest expense	(168,932)	(225,221)	(532,038)	(6,115)	(932,306)	-
Gain (loss) on capital asset disposal	(1,565)	-	93	-	(1,472)	(99,821)
Other nonoperating revenue	314,185	8	32,569	106	346,868	51,785
Total nonoperating revenues (expenses)	232,897	(223,431)	(459,389)	25,906	(424,017)	7,988
Income (loss) before contributions and transfers	240,527	75,398	4,593,064	748,384	5,657,373	328,405
Capital contributions	1,096,640	-	1,817,969	967,681	3,882,290	-
Transfers in	39,406	-	1,286,063	-	1,325,469	247,408
Transfers out	(1,004,461)	-	(2,081,955)	(1,662,385)	(4,748,801)	(1,000,000)
Change in net assets	372,112	75,398	5,615,141	53,680	6,116,331	(424,187)
Total net assets - beginning	52,935,422	2,694,127	61,721,669	6,185,271		11,266,490
Prior period adjustments (Note 16)	2,295,214	-	2,793,960	3,661		-
Total net assets - ending	\$ 55,602,748	\$ 2,769,525	\$ 70,130,770	\$ 6,242,612		\$ 10,842,303
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(1,030,383)	
Change in net assets of business-type activities					\$ 5,085,948	

See accompanying notes to the financial statements.

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2009

Page 1 of 2

	Business-type Activities					Governmental
	Enterprise Funds				Total	Activities
	Water	Golf Course	Wastewater	Other Proprietary Funds		Internal Service Funds
Cash Flows From Operating Activities						
Cash received from customers	\$ 8,196,406	\$ 3,189,652	\$ 13,071,013	\$ 2,066,237	\$ 26,523,308	\$ 4,741,199
Interest on investments	-	-	-	-	-	11,618
Cash payments to suppliers	(2,801,006)	(2,836,266)	(2,842,300)	(549,243)	(9,028,815)	(1,347,387)
Cash payments to employees	(3,959,964)	(41,449)	(2,779,424)	(911,385)	(7,692,222)	(1,255,621)
Purchase of insurance	(125,600)	-	(177,565)	(12,915)	(316,080)	(423,442)
Payment for insurance claims	-	-	-	-	-	(351,077)
Other operating receipts and payments	18,453	79,931	(385,016)	180,204	(106,428)	1,481
Net cash provided by operating activities	<u>1,328,289</u>	<u>391,868</u>	<u>6,886,708</u>	<u>772,898</u>	<u>9,379,763</u>	<u>1,376,771</u>
Cash Flows From Noncapital Financing Activities						
Transfers in	39,406	-	-	-	39,406	-
Transfers out	(1,476,253)	-	(558,542)	(1,459,403)	(3,494,198)	-
Other nonoperating revenues/expenses	304,777	8	14,577	106	319,468	13,785
Net cash provided (used) by noncapital financing activities	<u>(1,132,070)</u>	<u>8</u>	<u>(543,965)</u>	<u>(1,459,297)</u>	<u>(3,135,324)</u>	<u>13,785</u>
Cash Flows From Capital and Related Financing Activities						
Acquisition and construction of capital assets	(3,370,409)	(7,737)	(9,845,256)	(15,178)	(13,238,580)	(1,288,969)
Proceeds/costs on sale of assets	506	-	94	-	600	40,363
Capital contributions	414,313	-	133,240	21,763	569,316	38,000
Transfer in for asset construction	-	-	100,000	-	100,000	773,408
Transfer out for asset construction	-	-	(346,750)	(192,000)	(538,750)	(1,000,000)
Collections on notes receivable	52,723	-	-	-	52,723	-
Loan/grant proceeds	490,449	-	2,710,328	-	3,200,777	-
Bond proceeds	-	107	-	-	107	-
Principal paid on bonds	(42,000)	-	(278,000)	-	(320,000)	-
Principal paid on other debt	(566,284)	-	(2,011,948)	(9,864)	(2,588,096)	-
Interest paid on bonds and other debt	(153,327)	(175,006)	(487,717)	(6,313)	(822,363)	-
Net cash provided (used) for capital and related financing activities	<u>(3,174,029)</u>	<u>(182,636)</u>	<u>(10,026,009)</u>	<u>(201,592)</u>	<u>(13,584,266)</u>	<u>(1,437,198)</u>
Cash Flows From Investing Activities						
Proceeds from repayment of loans	9,362	-	-	-	9,362	6,181
Disbursement of Loans	(350,000)	-	-	-	(350,000)	(600,500)
Proceeds from special assessments	-	-	-	-	-	767
Interest on loans and investments	85,701	1,952	68,113	42,244	198,010	77,551
Net cash provided (used) in investing activities	<u>(254,937)</u>	<u>1,952</u>	<u>68,113</u>	<u>42,244</u>	<u>(142,628)</u>	<u>(516,001)</u>
Net increase (decrease) in cash and cash equivalents	(3,232,747)	211,192	(3,615,153)	(845,747)	(7,482,455)	(562,643)
Cash and cash equivalents - beginning of year	6,809,784	174,562	6,918,673	2,810,689	16,713,708	7,598,005
Cash and cash equivalents - end of year	<u>3,577,037</u>	<u>385,754</u>	<u>3,303,520</u>	<u>1,964,942</u>	<u>9,231,253</u>	<u>7,035,362</u>
Cash at the end of the year consists of:						
Operating fund cash	3,514,416	385,754	2,042,659	1,964,942	7,907,771	6,935,361
Restricted cash	62,621	-	1,260,861	-	1,323,482	100,000
Total cash at end of year	<u>\$ 3,577,037</u>	<u>\$ 385,754</u>	<u>\$ 3,303,520</u>	<u>\$ 1,964,942</u>	<u>\$ 9,231,253</u>	<u>\$ 7,035,361</u>

See accompanying notes to the financial statements.

**Statement of Cash Flows
Proprietary Funds**

For the Year Ended December 31, 2009

Page 2 of 2

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Golf Course	Wastewater	Other Proprietary Funds	Total	Internal Service Funds
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ (225,904)	\$ 298,829	\$ 4,557,720	\$ 721,956	\$ 5,352,601	\$ 656,310
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	1,869,241	125,447	2,885,811	68,354	4,948,853	708,947
Decrease (increase) in receivables	(184,247)	184	(295,631)	-	(479,694)	(216)
Decrease (increase) in due from other funds/govt	361	958	1,870	(49,268)	(46,079)	65,943
Decrease (increase) in prepaid expenses	2,000	-	-	14,316	16,316	32,479
Decrease (increase) in inventory	36,922	-	6,840	-	43,762	-
Increase (decrease) in accounts payable	125,191	(11,265)	(447,023)	-	(333,097)	16,708
Increase (decrease) in due to other funds/govt	(332,405)	(42)	(906)	(49,643)	(382,996)	1
Increase (decrease) in employee wages payable	5,799	(1,022)	-	-	4,777	14,151
Increase (decrease) in employee vacations payable	36,602	(359)	177,440	-	213,683	14,547
Increase (decrease) in other payables	(9,919)	(20,862)	1,415	67,183	37,817	-
Increase (decrease) in deferred revenues	4,647	-	(828)	-	3,819	-
Net cash provided by operating activities	\$ <u>1,328,288</u>	\$ <u>391,868</u>	\$ <u>6,886,708</u>	\$ <u>772,898</u>	\$ <u>9,379,762</u>	\$ <u>1,508,870</u>
Noncash investing, capital and financial activities;						
Developers contributed infrastructure	\$ 639,690	\$ -	\$ 748,743	\$ 945,919	\$ 2,334,352	\$ -

See accompanying notes to the financial statements

Statement of Fiduciary Net Assets
Fiduciary Funds
As of December 31, 2009

		<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$	200,085
Interest receivable		-
Interfund receivables		-
Total assets	\$	<u>200,085</u>
Liabilities		
Claims/contracts payable		67,815
Due to other funds		-
Other current liabilities		132,270
Total liabilities	\$	<u>200,085</u>
Net Assets		
Held in trust for pension benefits and other purposes	\$	<u><u>-</u></u>

See accompanying notes to the financial statements.

Notes to Financial Statements January 1, 2009 – December 31, 2009

1. Summary of significant accounting policies

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

A. Reporting Entity

The City of Bremerton was incorporated on October 14, 1901 and operates under the laws of the State of Washington applicable to a home-rule charter city with a Council/Mayor form of government. The City is a general purpose government which provides police, fire, water, wastewater, street maintenance, parks and recreation, planning and zoning, municipal court and general governmental services to its citizens.

On February 4, 2009 the City authorized and approved the creation of a Transportation Benefit District coextensive with the boundaries of the City in order to exercise the powers available under RCW 36.73. This blended component unit is governed by a board composed of the nine members of the Bremerton City Council, who serve in an ex-officio and independent capacity. The primary purpose of the District is the acquisition, construction, improvement, provision and/or funding of the maintenance of City street and related infrastructure. Financial Statements for this unit are not included for the year ending 12/31/09 as no transportation improvements have been funded.

B. Government-wide and fund financial statements

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

The water and wastewater funds account for activities related to the ongoing operations of the City's water and sewer systems.

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

Additionally, the City reports the following fund types:

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 activities. In both cases City departments contribute according to the benefit provided by each fund.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City of Bremerton has elected not to follow subsequent private-sector guidance.

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections 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 administrative, 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.

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.

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for all funds. The budget is prepared using a basis of accounting substantially the same as the GAAP basis used in accounting for governmental funds. The basis for budgeting differs from GAAP accounting in that fund balance is adjusted to exclude fund debt. Budgeted revenues and expenditures include the flow of funds resulting from the issue and redemption of fund debt which are not recognized under GAAP basis accounting. See Note 15 for a reconciliation of the Budgetary basis to GAAP for the Statement of Revenues, Expenditures and Changes in Fund Balances to Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund. All appropriations lapse at the end of each year.

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 supplemental appropriations as well as transfers and revisions within funds must be approved by the legislative authority following public hearings. The City's budget was amended two times in 2009.

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 Equities

1. Cash and Investments

It is the City's policy to invest all temporary cash surpluses. These investments are reported on the Statement of Net Assets as cash and investments. Included in cash and investments are currency on hand, demand deposits with banks or other financial institutions, investments with the State Investment Pool, and investments in U.S. Treasury and Agency Securities. At December 31, 2009 the City held \$27,326,840 in investments of surplus cash.

The amounts reported as cash and investments also include compensating balances maintained with the City's bank in lieu of payments for services rendered. The average compensating balance maintained during 2009 was \$2,952,065.

For purposes of the statement of cash flows the City considers all investments, including restricted assets, to be cash equivalents. All investments can be liquidated on demand.

2. Receivables

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

Interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2009, \$45,798 of special assessments receivable were delinquent.

The amounts reported as notes and contracts receivable represent housing rehabilitation loans resulting from the federal Department of Housing and Urban Development Community Development Block Grant programs. Deferred notes and contracts on the fund financial statement consist of outstanding loan balances that are liens against the property benefited

and the note receivable from property sold. An indeterminate portion of the Block Grant loans will be forgiven if certain qualifying conditions are met by the loan recipients.

3. Amounts Due To and From Other Funds

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 12.

4. Amounts Due To and From Other Governmental Units

Amounts due to and from other governments for grants, entitlements and contracts.

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 reserve for inventory is equal to the ending amount of inventory to indicate that a portion of the fund balance is not available for future expenditures. 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 at average cost which approximates market value.

6. Restricted Assets and Liabilities

These accounts contain resources for programs, construction, replacement, and debt service in both governmental and business type funds. The current portion of related liabilities is shown as *Payable from Restricted Assets*. Specific debt service reserve requirements are described in Note 9.

Restricted assets are composed of the following:

<u>Governmental type:</u>	
Cash and investments - Construction	\$ 59,306
Cash and investments - Parking system	297,171
Cash and investments - HUD programs	412,881
Cash and investments - Public safety	1,219,279
Cash and investments - Workers compensation	100,000
Cash and investments - Tourism promotion	29,232
External receivables - HUD programs	866,812
External receivables - Tourism promotion	9,336
External receivables - Parking system	551
External receivables - Public safety	2,201
External receivables - Construction	24,245
Due from other governments - HUD	90,274
Total governmental	<u>\$ 3,111,288</u>
<u>Business type:</u>	
Cash and investments - Debt service	\$ 1,174,604
Cash and investments - Construction	123,457
Cash and investments - Deposits	25,421
External receivables - Debt service	296,077
Total business	<u>\$ 1,619,559</u>

7. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Note 6 contains the change in net assets by category for 2009.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives 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. There was \$106,252 of interest expense incurred during 2009 for business-type capital assets under construction.

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

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

8. Other Noncurrent Assets

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

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits including compensated absences. Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Accrued vacation is payable at resignation, retirement or upon death of the employee. Maximum vacation carryover hours are set by contract for all bargaining unit employees. The maximum hours allowed to be carried over to the next fiscal year range from 240 to 360 depending on the unit. Payment for 35% of sick leave is only paid at retirement. Outstanding sick leave at year end is not accrued because the payment cannot be deemed probable nor can the amount be reasonably estimated.

10. Long-term Debt

The City issues debt to finance the purchase or construction of capital assets. Note 9 contains outstanding debt at 12/31/09 and bond and debt service requirements to maturity.

11. Deferred Revenue

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

12. Reservations of Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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 assets

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

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

Capital Assets of governmental funds net of depreciation	\$ 98,585,136
Capital Assets of Internal Service funds included in governmental activities net of depreciation	62,724
Net adjustment to increase fund balance - total governmental funds to arrive at net assets of governmental activities	<u>\$ 98,647,860</u>

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

Deferred revenue for taxes and loans receivable due beyond the city's 30 day measurable and available period	\$ 2,461,579
Investment interest accrued beyond the city's 30 day measurable and available period	17,958
Deferred charge for bond issue costs	240,537
Other post-employment benefits	280,444
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 3,000,518</u>

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

Net assets of Internal service funds included in governmental activities	\$ 697,100
Net capital assets of Internal Service funds included in governmental activities	(62,724)
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 634,376</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	\$ (21,474,185)
Less: Issuance premiums	(112,124)
Add: Deferred amount on refunding	30,300
Revenue bonds payable	(5,244,815)
Accrued interest payable	(44,855)
Compensated absences	(1,505,417)
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ (28,351,096)</u>

B. Explanation of aggregated differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The details of the aggregated differences are presented below.

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

Capital outlay	\$ 5,209,598
Depreciation	(3,273,445)
Loss on retirement of capital assets	(438,301)
Net adjustment to increase net change in fund balances - governmental funds	<u> </u>
to arrive at change in net assets - governmental activities	<u>\$ 1,497,852</u>

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

GO bond principal paid	\$ 875,582
Revenue bond principal paid	159,918
Unamortized debt issuance costs	(17,466)
Net adjustment to decrease net change in fund balances - governmental funds	<u> </u>
to arrive at change in net assets of governmental activities	<u>\$ 1,018,034</u>

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

Change in accrued interest receivable	\$ (14,966)
Change in deferred property taxes receivable	228,729
Change in court fines receivable	45,237
Change in block grant loans receivable	(23,458)
Change in special assessments receivable	(6,718)
Change in other post-employment benefits payable	80,289
Change in accrued interest payable	1,983
Change in compensated absences payable	(34,787)
Net adjustment to decrease net change in fund balances - governmental funds	<u> </u>
to arrive at change in net assets of governmental funds	<u>\$ 276,309</u>

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

Net revenue of risk management activities	\$ 205,789
Net revenue of information technology activities	(25,285)
Net revenue of equipment maintenance activities	425,692
Net adjustment to increase net change in fund balances - government funds to	<u> </u>
arrive at change in net assets of governmental funds	<u>\$ 606,196</u>

3. Stewardship, Compliance and Accountability

Washington State law (RCW 43.09.230) requires annual reports to be certified and filed with the State Auditor's Office 150 days after the close of each fiscal year. In addition, certain long-term debt issues have continuing disclosure

requirements that call for submission of the City’s annual report with the Municipal Securities Rulemaking Board Electronic Municipal Market Access (EMMA) program no later than September 30 of the year following the close of the fiscal year. Federal grants also require submission of the annual report to the federal oversight agency no later than September 30 of the year following closing.

4. Deposits and Investments

A. Deposits

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

B. Investments

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

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	Investment Maturity (in Years)		Percent of Total
		Less Than 1	1 - 5	
Federal National Mortgage Association	\$ 2,005,625	\$ -	\$ 2,005,625	8.0%
Federal Home Loan Bank	3,007,812	1,012,187	1,995,625	12.0%
JP Morgan Chase FDIC TLG	2,069,960		2,069,960	8.3%
Federal Farm Credit Bank	2,017,500	2,017,500		8.1%
State Treasurer's Investment Pool	7,552,006	7,552,006		30.2%
US Treasury	3,016,130	1,013,090	2,003,040	12.0%
City of Bremerton 2009 LTGO	5,373,000	105,000	5,268,000	21.5%
Total	\$ 25,042,033	\$ 11,699,783	\$ 13,342,250	100.0%

Credit Risk. The City’s investment policy limits investments to those authorized by State of Washington statutes governing the investment of public funds. As of December 31, 2009, the City’s investment in the state investment pool was 30.2% of total investments which is unrated. The City’s investments in Federal National Mortgage Association, Federal Home Loan Bank and Federal Farm Credit Bank securities were each rated Aaa by Moody’s Investors Service and AAA by Standard & Poor’s Rating Service

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

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

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

5. Property Taxes

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

A. Property Tax Calendar

January 1 - Taxes are levied and become an enforceable lien against properties.

February 14 - Tax bills are mailed.

April 30 - First of two equal installment payments is due.

May 31 - Assessed value of property established for next year's levy at 100 percent of market value.

October 31 - Second installment is due.

Property taxes are recorded as a revenue and receivable when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenue and recognized as revenue of the period to which they apply. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

RCW 84.52.043 allows a city to levy taxes of up to \$3.375 per \$1,000 of taxable property in the city and RCW 41.14.060 allows an additional \$0.225 per \$1,000 for any municipal purpose, if not required to fund pension programs. For cities annexed to a library district, such as the City, the maximum levy rate is reduced by the amount of the library district levy. For tax year 2009, the Kitsap Regional Library District levied \$0.29 per \$1,000 of assessed valuation, and therefore the City's maximum levy rate is \$3.31 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 2009 was \$1.97 per \$1,000 on an assessed valuation of \$3.085 billion for a total regular levy of \$6,082,861.

Special levies, approved by the voters are not subject to the above limitations. In 2009, the City levied an additional \$.79 per \$1,000 for General Obligation Bonds and Emergency Medical Services.

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.

6. Capital Assets

1/1/2009 Beginning Balance has been adjusted for prior year corrections (Note 17B).

Capital asset activity for the year ended December 31, 2009 was as follows:

Governmental Activities	Beginning Balance			Ending Balance
	1/1/2009	Increases	Decreases	
Capital assets, not being depreciated:				
Land	\$ 15,051,430	\$ 856,759	\$ 436,158	\$ 15,472,031
Construction in progress	5,875,026	4,690,092	5,667,954	4,897,164
Total capital assets, not being depreciated	<u>20,926,456</u>	<u>5,546,851</u>	<u>6,104,112</u>	<u>20,369,195</u>
Capital assets, being depreciated:				
Buildings/building improvements	52,374,237	2,194,071	0	54,568,308
Improvements other than buildings	14,288,484	2,230,637		16,519,121
Machinery and equipment	8,668,007	366,972	12,569	9,022,410
Infrastructure	32,729,766	547,286		33,277,052
Total capital assets, being depreciated	<u>108,060,494</u>	<u>5,338,966</u>	<u>12,569</u>	<u>113,386,891</u>
Less accumulated depreciation for:				
Buildings/buildings improvements	6,242,957	1,036,147	0	7,279,104
Improvements other than buildings	6,379,882	677,644		7,057,526
Machinery and equipment	4,140,996	590,707	10,427	4,721,276
Infrastructure	15,043,209	1,007,111		16,050,320
Total accumulated depreciation	<u>31,807,044</u>	<u>3,311,609</u>	<u>10,427</u>	<u>35,108,226</u>
Total capital assets, being depreciated, net	<u>76,253,450</u>	<u>2,027,357</u>	<u>2,142</u>	<u>78,278,665</u>
Governmental activities capital assets, net	\$ <u>97,179,906</u>	\$ <u>7,574,208</u>	\$ <u>6,106,254</u>	\$ <u>98,647,860</u>

Business-type Activities	Beginning Balance			Ending Balance
	1/1/2009	Increases	Decreases	
Capital assets, not being depreciated:				
Land	\$ 7,998,885	\$ 139,578	\$ 0	\$ 8,138,463
Construction in progress	13,367,084	12,912,708	9,024,082	17,255,710
Total capital assets, not being depreciated	<u>21,365,969</u>	<u>13,052,286</u>	<u>9,024,082</u>	<u>25,394,173</u>
Capital assets, being depreciated:				
Buildings/building improvements	47,527,264	666,860	30,995	48,163,129
Improvements other than buildings	108,661,333	8,571,369	62,062	117,170,640
Machinery and equipment	44,499,845	3,377,911	1,195,961	46,681,795
Total capital assets, being depreciated	<u>200,688,442</u>	<u>12,616,140</u>	<u>1,289,018</u>	<u>212,015,564</u>
Less accumulated depreciation for:				
Buildings/buildings improvements	15,822,571	902,445	30,995	16,694,021
Improvements other than buildings	32,663,729	2,116,292	62,062	34,717,959
Machinery and equipment	21,253,236	1,827,096	1,042,127	22,038,205
Total accumulated depreciation	<u>69,739,536</u>	<u>4,845,833</u>	<u>1,135,184</u>	<u>73,450,185</u>
Total capital assets, being depreciated, net	<u>130,948,906</u>	<u>7,770,307</u>	<u>153,834</u>	<u>138,565,379</u>
Business-type activities Capital assets, net	\$ <u>152,314,875</u>	\$ <u>20,822,593</u>	\$ <u>9,177,916</u>	\$ <u>163,959,552</u>

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

Governmental Activities:	
General government	\$ 231,046
Public safety	571,590
Transportation, including depreciation of general infrastructure assets	1,030,569
Economic environment	348
Culture and recreation	1,439,894
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>38,162</u>
Total depreciation expense - Governmental activities	<u>\$ 3,311,609</u>
Business-type activities:	
Water	\$ 1,565,608
Wastewater	2,384,053
Stormwater	67,831
Golf	125,447
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>702,894</u>
Total depreciation expense - Business-type activities	<u>\$ 4,845,833</u>

Construction Commitments:

The City had one active construction project as of December 31, 2009. \$674,303 had been spent as of the end of 2009 on construction of the Pacific Avenue Basin Stormwater Collection System. The remaining commitment to complete construction is \$108,804.

7. Pension Plans

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communication Unit
PO Box 48380
Olympia, WA 98504-8380

The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and Local Government Employer and No. 50 Pension Disclosure, and Amendment of GASB Statements No. 25 and No. 27*:

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

1. Plan Description

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

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

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

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at age 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of the annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or they may retire at age 55 with 10 year of service. Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

Judicial Benefit Multiplier

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

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

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

Statewide there are 1,192 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2008:

Retirees and beneficiaries receiving benefits	73,122
Terminated plan members entitled to but not yet receiving benefits	27,267
Active plan members vested	105,212
Active plan members non-vested	56,456
Total	262,057

2. Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and at a 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS 3 employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board set Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2009 were as follows for Members not participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer *	5.31%**	5.31%**	5.31%***
Employee	6.00%****	3.90%****	*****

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

** The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% for Plan 2 and 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 3.90% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	7.81%	7.81%	7.81%**
Employer-Local Agency*	5.31%	5.31%	5.31%**
Employee-State Agency	9.76%	7.25%	7.50%**
Employee-Local Agency	12.26%	9.75%	7.50%**

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

**Plan 3 defined benefit portion only.

***Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2009	\$ 99,725	\$ 778,836	\$ 106,514
2008	\$ 147,125	\$ 829,085	\$ 104,356
2007	\$ 83,897	\$ 646,675	\$ 71,610

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

1. Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement officers, firefighters and, as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception.

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

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

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

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

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

Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service or, at 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 members who retire prior to the age 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. 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. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at three percent annually.

There are 375 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2008:

Retirees and beneficiaries receiving benefits	9,268
Terminated plan members entitled to but not yet receiving benefits	650
Active plan members vested	13,120
Active plan members non-vested	3,927
Total	26,965

2. Funding Policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by LEOFF Plan 2 Retirement Board. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this fund requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2009 were:

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

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

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

	LEOFF Plan 1	LEOFF Plan 2
2009	\$ 738	\$ 556,767
2008	\$ 1,077	\$ 532,691
2007	\$ 1,159	\$ 467,863
2006	\$ 1,201	\$ 384,238

C. **Public Safety Employees' Retirement System (PSERS) Plan 2**

1. Plan Description

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS was created by the 2004 legislature and became effective July 1, 2006.

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

A *covered employer* is one that participates in PSERS. Covered employers include: State of Washington agencies: Department of Corrections; Parks and Recreation Commission, Gambling Commission, Washington State Patrol, and Liquor Control Board; Washington state counties; and Washington state cities except for Seattle, Tacoma and Spokane.

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

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigation, 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 defined benefit retirement payments are financed from a combination of investment earnings and employer and employee contribution. PSERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PSERS Plan 2 members are vested after completion of five years of eligible service. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is the monthly average of the member's 60 consecutive highest-paid service credit month excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

There are 73 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2008:

Retirees and beneficiaries receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members vested	0
Active plan members non-vested	3,981
Total	3,982

2. Funding Policy

Each biennium, the state Pension Funding Council adopts PSERS Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2009 were as follows:

	PSERS Plan 2
Employer*	7.85%
Employee	6.55%

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

Both the City and the employees made the required contribution. The City's required contributions for the year ended December 31, 2009 were as follows:

	PSERS Plan 2
2009	\$ 9,627
2008	\$ 9,868
2007	\$ 8,934

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 2009 insurance coverage and risk retention:

<u>Risk</u>	<u>Coverage Limit</u> <u>Per Occurrence</u>	<u>Self-Insured</u> <u>Retention</u>	<u>Insurer</u>
Excess liability	\$5,000,000	\$250,000	Illinois Union Insurance Company
Excess workers' compensation	Statutory	350,000	Safety National Casualty Corporation
Blanket property	55,000,000	100,000	Affiliated FM Insurance Company
Employee blanket bond	1,000,000	25,000	Great American Insurance Company
Pollution legal liability	1,000,000	100,000	Indian Harbor Insurance Company

The risk manager and claims administrators establish reserves for open claims on a case by case basis, after an assessment of each claim's settlement value. Actuarial techniques are used to estimate the long-term liability of the fund for both reported and unreported losses. As of December 31, 2009, the Risk Management Fund had cash reserves of \$1,537,588. Long-term fund liabilities have been estimated at \$1,069,164. Cash balances adequate to pay currently due claims have been available in the fund since its inception in 1986. In the last three years, no settlement has exceeded the limit of liability on applicable insurance policies. The expected annual level of incurred claims is approximately \$554,000.

The following table shows the actual claims activity for 2008 and 2009:

	2008	2009
Claims liability - beginning of year	\$ 923,325	\$ 1,618,821
Claims incurred	867,703	306,531
Estimate change prior years	265,483	(24,206)
Payment on claims	(437,690)	(266,982)
Expected Insurance Recovery		
Claims liability - end of year	\$ 1,618,821	\$ 1,634,164

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 to advance refund G.O. bonds. General obligation and revenue bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources.

General obligation bonds currently outstanding are as follows:

	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Outstanding</u> <u>12/31/2009</u>
2002 Public Safety UTGO	12/01/27	2.5 / 5.25	\$ 10,545,000
2003 Weekly Rate Demand Conference Ctr (Councilmanic)	12/01/28	VARIABLE	4,430,185
Government Center Real Estate Contract	06/01/34	1.6/5	5,735,000
2005 Sports & Public Works Complex Ref LTGO	09/06/05	3.69	764,000
2009 LTGO Refunding	12/31/28	3.0 / 4.5	5,373,000
Total General Obligation Bonds and Notes			\$ 26,847,185

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
2010	771,500	827,947	105,000	161,190
2011	960,476	798,077	105,000	158,040
2012	1,001,923	765,765	105,000	180,705
2013	773,371	731,909	105,000	177,030
2014	809,397	706,492	200,000	198,120
2015-2019	4,586,487	3,089,522	1,328,000	935,635
2020-2024	5,683,410	2,137,988	1,734,000	621,450
2025-2029	5,277,622	890,268	1,691,000	194,445
2030-2034	1,609,999	230,000		
Total	\$ 21,474,185	\$ 10,177,968	\$ 5,373,000	\$ 2,626,615

Revenue bonds and loans currently outstanding are as follows:

	Maturity Date	Interest Rate	Outstanding 12/31/2009
1994 PWTF Loan - Warren Ave CSO	07/01/14	1.0 %	798,030
1995 PWTF Loan WWTP improvements	07/01/15	1.0	1,111,403
1996 PWTF Loan Callow Ave CSO I	07/01/16	1.0	1,060,117
1997 PWTF Loan Callow Ave CSO II	07/01/17	1.0	282,016
1998 PWTF Loan SR 303 water main	07/01/18	1.0	1,492,106
1999 PWTF Loan Tracyton water sys ph2	07/01/19	2.0	99,074
1999 PWTF Loan CSO design	07/01/20	2.0	487,925
2000 PWTF Loan Multi-Basin CSO	07/01/20	1.0	1,642,584
2000 PWTF Loan Callow CSO 3-5	07/01/20	1.0	2,457,725
2001 PWTF Loan East Bremerton CSO	07/01/21	0.5	1,900,000
2003 PWTF Loan Anderson Cove Basin 12	07/01/23	0.5	403,885
2003 PWTF Loan Naval Avenue	07/01/23	4.0	184,210
2004 PWTF Loan Brentwood storm drain red	07/01/24	4.0	147,964
2004 PWTF Loan Pacific Ave Basin CSO	07/01/24	0.5	783,157
2006 PWTF Loan WWTP upgrade	07/01/10	0.5	170,760
2006 PWTF Loan SW Bremerton sewer	07/01/11	0.5	297,917
2007 PWTF Anderson Cove sewer PS CWI	07/01/27	0.5	639,474
2007 PWTF Sheldon Blvd sewer repl	07/01/27	2.0	56,842
2007 PWTF WWTP upgrades	07/01/27	0.5	1,278,947
1994 CCWF Loan Callow Ave CSO design	05/01/17	0.0	279,529
1997 CCWF Loan Callow Ave CSO I	07/31/18	4.8	1,517,599
1998 DWSRF Loan corrosion control facility	10/01/18	4.0	495,150
2009 DWSRF UV Treatment Upgrade (ARRA)	10/1/17	0.0	355,072
2001 DWSRF Loan Tracyton WD upgrade	10/01/21	2.5	1,674,988
2002 DWSRF Loan Eastside flow & pressure	10/1/22	2.5	793,263
2002 DWSRF Loan Casad Dam seismic upgrade	10/1/22	2.5	510,585
2003 DWSRF Loan Casad Dam intake tower	10/01/23	1.5	61,612
2003 DWSRF Loan Pump Station 4 upgrade	10/01/23	1.5	806,557
2004 DWSRF Loan Anderson Creek	10/01/24	1.5	80,727

2004 DWSRF Loan seismic upgrades	10/01/24	1.5	424,474
1999 WPCRF Loan CSO plan update	12/31/22	1.5	175,794
1999 WPCRF Loan Anderson Cove CSO	02/27/21	1.5	599,476
1999 WPCRF Loan Callow Ave CSO final	12/31/22	1.5	406,554
2002 WPCRF Loan Anderson CV CSO red	1/23/22	1.5	431,444
2002 WPCRF Loan Cherry/Trenton CSO red	10/15/24	1.5	814,861
2002 WPCRF Loan Trenton pump station	10/15/24	1.5	814,334
2002 WPCRF Loan Tracyton Beach CSO	12/31/25	1.5	488,346
2002 WPCRF Loan Anderson Cove Basin 12	12/31/26	1.5	223,751
2003 WPCRF Pacific Ave CSO red-sep	6/30/24	1.5	244,526
2003 WPCRF Loan Pacific Ave CSO reduction	12/31/27	1.5	975,360
2004 WPCRF Loan Charry/Trenton CSO red-1	12/31/26	1.5	977,375
2007 WPCRF WWTO upgrade	1/1/29	2.6	97,824
2007 W/S Refunding Revenue bond	12/01/21	4.3	4,590,000
2003 Weekly Rate Demand Conference Ctr	12/1/28	Variable	5,244,815
Total revenue bonds and loans			\$ 38,378,152

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

Year Ending December 31	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2010	\$ -	\$ 14,161	\$ 2,924,679	\$ 611,912
2011	187,024	13,656	2,943,968	562,212
2012	200,577	13,114	2,822,762	510,590
2013	214,129	12,537	2,921,959	458,640
2014	233,103	11,907	2,945,589	391,501
2015-2019	1,268,513	49,457	12,292,479	1,240,674
2020-2024	1,469,090	30,753	5,467,112	248,893
2025-2029	1,672,379	8,248	814,789	17,272
Total	\$ 5,244,815	\$ 153,833	\$ 33,133,337	\$ 4,041,694

On February 20, 2003, the City issued \$10,865,000 principal amount of Weekly Rate Demand Revenue Bonds, 2003, (Kitsap Regional Conference Center Parking Garage). Those bonds are secured by a letter of credit from Bank of America (the "Bank") that initially expired on February 10, 2006, and was extended. The current letter of credit expires on August 10, 2010. The City agreed to repay the Bank for draws on the letter of credit that are not paid from remarketing the bonds as a general obligation of the City, with a cap on such reimbursement obligation of \$4,975,139. The City is currently reviewing its options regarding these bonds, which may include extending the Bank's letter of credit, obtaining a new letter of credit, or issuing fixed rate bonds to refund the bonds. If fixed rate bonds are issued, they could be a combination of revenue bonds and limited tax general obligation bonds or solely limited tax general obligation bonds.

The interest rate on the 2003 Weekly Rate Demand bonds is determined weekly by the Remarketing Agent. The rate determined is the minimum rate which in its judgment, on the basis of prevailing financial market conditions, would permit the sale of the 2003 bonds at par on the determination date, such rate to be the weekly rate for the next rate period. If the remarketing agent fails to make such determination on any determination date, the weekly rate for the next succeeding rate period shall be the rate in effect for the immediately preceding rate period. The effective rate at December 31, 2009 was .27%.

In 2009 the City was awarded a \$6,060,000 Drinking Water Assistance loan, funded through the American Recovery and Reinvestment Act of 2009 for the design and construction of a UV Treatment and Chlorine disinfection Facility. Terms

of the loan provide that at project completion, the lesser of the loan amount less the loan fee or the actual eligible costs less the loan fee will be forgiven. The outstanding balance on this loan at 12/31/09 was \$355,072. The project is scheduled for completion in 2011.

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

At December 31, 2009, the city has \$262,834 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$1,298,061 in sinking funds and reserves as required by bond indentures.

B. Refunded Debt

The city issued \$5,373,000 of general obligation refunding bonds during 2009 to provide resources to purchase U.S. Government and State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$5,075,000 of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. This advance refunding was undertaken to provide greater flexibility in managing the City's Gold Mountain Golf Complex. The refunding extended the repayment period by eight years, reduced annual debt service over the life of the refunded bonds by approximately \$193,500 and resulted in an economic gain of \$52,272.

C. Changes in Long Term Liabilities

During the year ended December 31, 2009, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2009	Additions	Reductions	Ending Balance 12/31/2009	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$ 22,349,767		\$ 875,582	\$ 21,474,185	\$ 771,500
Revenue bonds	5,404,733		159,918	5,244,815	
Add unamortized premiums	118,382		6,258	112,124	
Less deferred refunding expense	(39,869)	9,568	-	(30,301)	-
Total bonds payable:	<u>27,833,013</u>	<u>9,568</u>	<u>1,041,758</u>	<u>26,800,823</u>	<u>771,500</u>
Claims and judgments	1,618,821	15,343		1,634,164	565,000
Compensated absences	<u>1,500,985</u>	<u>63,607</u>		<u>1,564,592</u>	<u>1,369,929</u>
Governmental activity long-term liabilities:	\$ 30,952,819	\$ 88,518	\$ 1,041,758	\$ 29,999,579	\$ 2,706,429

	Beginning Balance 1/1/2009	Additions	Reductions	Ending Balance 12/31/2009	Due Within One Year
Business-type Activities:					
Bonds payable:					
General obligation bonds	\$ 5,075,000	\$ 5,373,000	\$ 5,075,000	\$ 5,373,000	\$ 105,000
Revenue bonds	4,910,000		320,000	4,590,000	330,000
Less OID on GO bonds	(7,363)	7,363		-	
Less deferred refunding expense	-	6,376	286,935	(280,559)	
Total bonds payable:	<u>9,977,637</u>	<u>5,386,739</u>	<u>5,681,935</u>	<u>9,682,441</u>	<u>435,000</u>
Intergovernmental loans	29,204,414	1,927,019	2,588,096	28,543,337	2,594,679
Note payable	111,233			111,233	
Compensated Absences	<u>437,360</u>	<u>108,042</u>		<u>545,402</u>	<u>442,467</u>
Business-type activity long-term liabilities:	\$ 39,730,644	\$ 7,421,800	\$ 8,270,031	\$ 38,882,413	\$ 3,472,146

The Risk Management 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 \$1,634,164 of Risk Management claims and judgments and \$30,997 of compensated absences are included in the above amounts.

10. Contingencies, Litigation and Claims

In March 1993, the City entered into an Order on Consent with the Department of Ecology for reduction of combined sewer overflows (CSOs) including separation of combined sanitary and storm sewers. All required improvements were completed at the end of 2009 at a total cost of \$50.3 million.

In 1993 the City also entered into a Consent Decree with the Puget Soundkeeper's Alliance (PSA), a citizens' group authorized to commence an action under the Federal Clean Water Act. Since entering the Consent Decree, PSA and the City were involved in mediation, which has resulted in the acceleration of several CSO projects, and a reordering of the schedule for construction of the remaining projects. Satisfactions of the liabilities under the above Order on Consent and this Consent Decree have been accomplished concurrently.

The Kitsap County Housing Authority issued Variable Rate Demand Revenue Bonds, 2005 in the principal amount of \$22,200,000, which were secured by a letter of credit. The proceeds of those bonds were used to develop the Harborside Condominiums in the City. The County agreed to loan the Housing Authority up to \$22,200,000 plus interest in the event the Housing Authority does not have sufficient funds to reimburse the bank which provided the letter of credit ("LOC") securing those bonds for draws on the LOC. The City entered into an agreement with the Housing Authority and the County pursuant to which the City agreed to loan the Housing Authority up to \$2,000,000 in the event the bank letter of credit was drawn on, the County had lent \$22,200,000 to the Housing Authority to reimburse the bank for draw on the letter of credit and there were not funds available to pay a portion of the bank reimbursement. In 2009, the Housing Authority drew the full amount of the bank letter of credit to repay the bonds, and the Housing Authority and the County entered into an agreement under which the County borrowed money to loan to the Housing Authority to reimburse the bank. The County and the Housing Authority have demanded that the City loan \$2,000,000 to the Housing Authority under its agreement. The City had indicated to the Housing Authority and County that it does not believe that it is obligated to loan up to \$2,000,000 because the terms of the agreement were not followed. Although it is possible a lawsuit might be filed in this matter, the parties are actively working to resolve the matter. The City cannot predict how this matter will be resolved.

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

11. Restricted Net Assets

The government-wide statement of net assets reports \$4,730,847 of restricted net assets, all of which is restricted by enabling legislation.

12. Interfund Balances and Transfers

A. Interfund Balances

Interfund balances at December 31, 2009 were as follows:

		Due From							Total
		General Fund	Other Govt	Water	Waste-Water	Golf	Other Prop	Internal Service	
Due To	General Fund	\$ -	\$ 201,848	\$ 66,488	\$ 127,261	\$ 198	\$ 22,434	\$ -	\$ 418,229
	Other governmental funds	165,000	174,045	-	-	-	-	-	339,045
	Water	-	-	-	1,175	-	-	1,405	2,580
	Wastewater	-	-	1,175	-	-	-	-	1,175
	Internal Service	-	-	-	-	-	-	177,062	177,062
Total		\$ 165,000	\$ 375,893	\$ 67,663	\$ 128,436	\$ 198	\$ 22,434	\$ 178,467	\$ 938,091

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 2010. Interfund loans are approved by City Council Resolution and include a repayment date. The following schedule is a summary of loans outstanding at year end including the year of final payment.

Loaned From	Purpose	Yr of final Payment	Loaned To		
			General Fund	Other Govt	Total
Water	Park Land	2025	\$ 197,858	\$ 350,000	\$ 547,858
Internal service	Park Impr	2020	500,000	101,185	601,185
Total			\$ 697,858	\$ 451,185	\$ 1,149,043

B. Interfund Transfers

Interfund transfers at December 31, 2009 were as follows:

		Transfer From						Total
		General Fund	Other Govt	Water	Waste-Water	Other Prop	Internal Service	
Transfer To	General Fund	\$ -	\$ 889,264	\$ 1,004,461	\$ 1,579,797	\$ 244,916	\$ 1,000,000	\$ 4,718,438
	Other governmental funds	994,739	1,355,883	-	346,750	-	-	2,697,372
	Water	-	-	-	-	39,406	-	39,406
	Wastewater	-	-	-	-	1,286,063	-	1,286,063
	Internal Service	-	-	-	155,408	92,000	-	247,408
Total		\$ 994,739	\$ 2,245,147	\$ 1,004,461	\$ 2,081,955	\$ 1,662,385	\$ 1,000,000	\$ 8,988,687

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 several significant transfers during 2009. The Contingency Reserve fund transferred \$445,280 of proceeds received from the sale of City property to the General fund for ongoing operations and another \$400,000 of net proceeds from the sale of the West Hills precinct to the Parks Capital Improvement fund to support the parks maintenance building project.

General Government Capital Improvement fund transferred \$346,000 to support the Memorial Plaza and Commons capital improvement program.

The Wastewater fund transferred \$346,750 to the Boardwalk fund to support the Former Chevron Property Cleanup.

The Utility Debt Reserve fund was closed and required bond reserves were transferred to the Water (\$39,406) and Wastewater (\$1,186,063) funds where reserves will be held as restricted assets until outstanding loans are retired.

The Equipment Rental Reserve fund transferred \$1,000,000 of excess reserves to the General fund in support of ongoing operations.

13. Receivable and Payable Balances

A. Receivables

Receivables at December 31, 2009 were as follows:

	Accounts	Taxes	Loans Receivable	Notes Contracts	Due from Other Government	Other	Total
Governmental Activities:							
General Fund	\$ 858,438	\$ 2,300,972	\$ -	\$ -	\$ 136,875	\$ 2,435	\$ 3,298,720
Non-major and other funds	119,135	313,791	\$ 866,812	24,500	228,198	68,461	1,620,897
Reconciliation of balances in fund financial statements to government-wide financial statements	-	-	-	-	-	9,489	9,489
Total governmental activities	\$ 977,573	\$ 2,614,763	\$ 866,812	\$ 24,500	\$ 365,073	\$ 80,385	\$ 4,929,106
Business-Type Activities:							
Water	\$ 1,445,384	-	-	918,937	29,324	\$ 11,350	\$ 2,404,995
Golf	-	-	-	3,372	-	1,770	5,142
Wastewater	2,534,243	-	-	-	126,712	66,927	2,727,882
Non-major and other funds	454,836	-	-	-	1,073	3,526	459,435
Reconciliation of balances in fund financial statements to government-wide financial statements	-	-	-	2,920	-	8,136	11,056
Total business-type activities	\$ 4,434,463	\$ -	\$ -	\$ 925,229	\$ 157,109	\$ 91,709	\$ 5,608,510

B. Payables

Payables at December 31, 2009 were as follows:

	Salaries and		Retainage	Due to Other		Claims/		Total
	Vendors	Benefits		Governments	Judgements	Other		
Governmental Activities:								
General Fund	\$ 520,228	\$ 812,628	\$ -	\$ 512	\$ -	\$ -	\$ -	\$ 1,333,368
Non-major and other funds	356,252	183,848	-	20,213	-	97,382	-	657,695
Reconciliation of balances in fund financial statements to government-wide financial statements	73,792	1,607,730	-	256	1,634,164	\$ 44,855	-	3,360,797
Total governmental activities	\$ 950,272	\$ 2,604,206	\$ -	\$ 20,981	\$ 1,634,164	\$ 142,237	\$ -	\$ 5,351,860
Business-Type Activities:								
Water	\$ 655,895	\$ 397,540	\$ 58,409	\$ 809	\$ -	\$ 118,633	\$ -	\$ 1,231,286
Golf	49,673	1,268	-	-	-	3,817	-	54,758
Wastewater	663,941	338,617	-	1,802	-	145,914	-	1,150,274
Non-major and other funds	14,378	128,698	-	-	-	2,959	-	146,035
Reconciliation of balances in fund financial statements to government-wide financial statements	232,121	140	-	5	-	-	-	232,266
Total business-type activities	\$ 1,616,008	\$ 866,263	\$ 58,409	\$ 2,616	\$ -	\$ 271,323	\$ -	\$ 2,814,619

14. Post Employment Benefits other than Pension

Statement No. 45 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for reporting of post employment benefits other than pensions for financial statement for periods beginning after December 15, 2007. For the purposes of implementing the requirements of this statement, the year ending 12/31/08 was the transition year.

Plan Description

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The City’s annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of nineteen years as of September 1, 2006. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and

changes in the City's net OPEB. The net OPEB obligation of (\$280,444) is included as a noncurrent asset on the Statement of Net Assets.

	Fiscal Year Ending 12/31/09
Determination of Annual Required Contribution:	
Amortization of UAAL*	1,352,725
Interest Adjustment to year End	13,460
Annual Required Contribution (ARC)	\$ 1,366,185
Determination of NET OPEB Obligation:	
Annual Required Contribution	\$ 1,366,185
Annual OPEB Cost	\$ 1,366,185
Contributions	(1,446,474)
Change in Net OPEB Obligations	\$ (80,289)
Net OPEB Obligations - beginning of year	\$ (200,155)
Net OPEB Obligations - end of year	\$ (280,444)

* Unfunded Actuarial Accrued Liability (UAAL)

The City's OPEB cost, the percentage OPEB cost contributed to the plan and the net OPEB Assets for 2009 and the preceding year, was as follows:

Fiscal year Ended	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	Net OPEB Obligation
12/31/2008	\$ 1,142,500	117.50%	\$ (200,155)
12/31/2009	\$ 1,366,185	105.88%	\$ (280,444)

Funded Status and Funding Progress

As of October 1, 2008, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was \$21,632,822 and the actuarial value of the assets was \$0 resulting in a UAAL of \$21,632,822.

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

Actuarial Methods and Assumptions

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

In the October 1, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions used included a 3.0% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance payment of benefits. A medical inflation rate of 10% graded to 5% over ten years was used along with a long term care inflation rate of 3.0%.

The UAAL is being amortized on a closed basis at the assumed discount rate. The remaining amortization period at January 1, 2009 was 18.75 years.

15. Budget to GAAP Reconciliation

The following schedule reconciles the amounts on the Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (which are presented on a non-GAAP budgetary basis) to the amounts on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.

Revenues	General Fund
Budgetary Basis	\$ 31,085,141
Receipt of Fund Debt	<u>500,000</u>
GAAP Basis	31,585,141
 Expenditures	
Budgetary Basis	33,709,599
Redemption of Fund Debt	<u>(9,362)</u>
GAAP Basis	33,700,237
 Beginning Fund Balance	
Budgetary Basis	1,539,436
Fund Debt Outstanding	<u>(207,220)</u>
GAAP Basis	1,332,216
 Ending Fund Balance	
Budgetary Basis	2,655,165
Fund Debt Outstanding	<u>(697,858)</u>
GAAP Basis	1,957,307

16. Segment Information

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

The key financial data for the year ended December 31, 2009 for the combined utility operations are as follows:

Condensed Statement of Net Assets

Assets	
Current assets	\$ 13,633,993
Restricted assets	1,616,639
Capital assets	145,580,414
Other assets	1,339,157
Total assets	<u>162,170,203</u>
Liabilities	
Current liabilities	5,184,159
Payable from restricted assets	25,421
Long-term liabilities	30,806,117
Total liabilities	<u>36,015,697</u>
Net Assets	
Restrict for debt service	1,174,604
Unrestricted	12,644,057
Invested in capital assets net of related debt	112,335,845
Total net assets	<u>\$ 126,154,506</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Total operating revenues	\$ 24,397,012
Operating Expenditures:	
Operations & maintenance	14,519,833
Depreciation/amortization/depletion	4,823,406
Total operating expenses	<u>19,343,239</u>
Operating income(loss)	5,053,773
Non-Operating Revenues/Expenses	
Interest expense (net)	(545,974)
Other (net)	345,388
Total non-operating revenues/expenses	<u>(200,586)</u>
Capital contributions	3,882,290
Transfers	(3,423,332)
Change in net assets	5,312,145
Beginning net assets	120,842,362
Ending net assets	<u>\$ 126,154,507</u>

Condensed Statement of Cash Flows

Net cash provided By:	
(a) Operating activities	\$ 8,987,895
(b) Noncapital financing activities	(3,135,332)
(c) Capital and related financing activities	(13,401,630)
(d) Investing activities	(144,580)
Beginning cash and investment balance	16,539,146
Ending cash and investment balance	<u>\$ 8,845,499</u>

17. Other Disclosures

A. Deficit Fund Balance

The Risk Management internal service fund had a deficit fund balance at December 31, 2009 of \$66,480. 2009 operating income of \$205,789 reduced the deficit from 2008 caused by a significant increase in long term worker’s compensation and tort claim projected losses in 2008. The increase in losses payable was attributable to claims incurred during 2007 and 2008. Current claims are covered by contributions from insured funds and are expected to reverse the negative balance in future years.

B. Prior Year Corrections

ERR Adjustment. The 2009 Government-Wide Financial Statements reflect a change in the treatment of the Equipment Rental Reserve internal service fund. Prior to 2009 the assets and operations of the fund were allocated between Government and Business type activities. GASB Statement 34 prescribes that internal service funds should be consolidated in the same activities column as its predominant customers. For 2009 the operations of the ERR fund have been consolidated in the business-type activities column.

Overstatement of depreciation on capital assets. Prior to 2009 assets of the City’s utilities were depreciated beyond their useful lives, resulting in an understatement of Capital Assets, net of depreciation, on the fund Statement of Net Assets for Proprietary Funds and the government-wide Statement of Net Assets for Business Type Activities. The correction of the understatement for prior years resulted in an increase of \$5,092,835 to proprietary fund balances.

The corrections for the above adjustments are noted on the following table. Beginning Asset balances in Note 6 to the Financial Statements have also been restated to reflect these corrections.

	Ending Balance 12/31/2008	ERR Adjustment	Depreciation Overstatement	Beginning Balance 1/1/2009
Governmental Activities:				
Capital assets, being depreciated:				
Machinery and equipment	14,736,127	(6,068,120)	-	8,668,007
Less accumulated depreciation for:				
Machinery and equipment	7,358,810	(3,217,814)	-	4,140,996
Business-type Activities:				
Capital assets, being depreciated:				
Machinery and equipment	38,431,725	6,068,120	-	44,499,845
Less accumulated depreciation for:				
Buildings/building improvements	16,172,444	-	(349,873)	15,822,571
Improvement other than buildings	33,456,999	-	(793,270)	32,663,729
Machinery and equipment	21,985,114	3,217,814	(3,949,692)	21,253,236

C. Subsequent Events

On May 28, 2010, the city issued \$6,910,000 in LTGO Taxable Build America Bonds to pay a portion of the costs of (a) constructing two subsurface and two above-grade parking areas for approximately 250 parking stalls to provide multi-use parking for Puget Sound Naval Shipyard daytime workers, downtown Harborside retail, businesses and visitors to Memorial Plaza and Harborside Fountain Park (the “Revitalization Area Project”), (b) renovating Lions Park and (c) purchasing and renovating a building to be used as a municipal courthouse. The bonds bear interest rates from 3.203 to 6.129 percent and will be redeemed over the next twenty five years. The City expects to pay a portion of the costs of the Revitalization Area Project from money received under the State’s Local Revitalization Financing (LRF) program.

Under RCW 82.14.505 and .510, a sales and use tax may be imposed by qualifying jurisdictions for certain projects. The City has received approval from the State Department of Revenue to collect an LRF tax beginning July 1, 2010 to pay for improvements in the City's designated revitalization area. The City expects to receive an amount of not more than \$330,000 annually from the LRF tax to pay debt service on the portion of the Bonds issued for the Revitalization Area Project. The City has pledged the revenue from this LRF tax to the repayment of the portion of the Bonds funding the Revitalization Area Project. The City anticipates using a portion of its Real Estate Excise Tax to repay a portion of the debt service on the Bonds used for the Park and Courthouse Projects.

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

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

CITY OF BREMERTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2009

1 Federal Agency Name/Pass-Through Agency Name	2 Federal Program Name	3 CFDA Number	4 Other I.D. Number	5 Expenditures			6 Foot-note Ref.
				From Pass-Through Awards	From Direct Awards	Total	
U.S Dept of HUD	Community Development Block Grant	14.218	B-08-MC-53-0011		136,806	136,806	
U.S Dept of HUD	Community Development Block Grant	14.218	B-09-MC-53-0011		216,014	216,014	
U.S Dept of HUD	Community Development Block Grant	14.218	Program Income		42,570	42,570	3
U.S Dept of HUD	Shelter Plus Care	14.238	WA01C1-05001		101,358	101,358	
U.S Dept of HUD	Shelter Plus Care	14.238	WA01C1-05002		43,522	43,522	
U.S Dept of HUD	Shelter Plus Care	14.238	WA19C93-1129		40,306	40,306	
U.S. Dept. of HUD/Pass through from Kitsap County	HOME Investment Partnerships Program	14.239	KC19908	2,519		2,519	
U.S. Dept. of HUD/Pass through from Kitsap County	HOME Investment Partnerships Program	14.239	KC21307	7,290		7,290	
U.S. Dept. of HUD/Pass through from Kitsap County	HOME Investment Partnerships Program	14.239	KC21806	71,817		71,817	
U.S. Dept. of HUD/Pass through from Kitsap County	HOME Investment Partnerships Program	14.239	KC29909	13,621		13,621	
U.S. Dept. of HUD/Pass through from Kitsap County	HOME Investment Partnerships Program	14.239	Program Income	7,941		7,941	3
U.S. Dept of HUD	Community Development Block Grant	14.246	B-04-SP-WA-0863		43,287	43,287	
U.S. Dept of the Interior	Land and Water Conservation Program	15.916	05-1237A	100,000		100,000	
U.S. Dept of the Interior	Land and Water Conservation Program	15.916	06-1794D	63,156		63,156	
U.S. Dept of Justice/Pass-through Kitsap Sexual Assault Center	Sexual Assault Services Formula Program	16.017	F08-31103-012	6,303		6,303	
U.S. Dept of Justice	Bulletproof Vest Partnership	16.607	99002098		3,665	3,665	
U.S. Dept of Justice	Public Safety Partnership & Community Policing (COPS)	16.71	2007-CK-WX-0057		1,296,840	1,296,840	
U.S. Dept of Justice	ARRA Public Safety Partnership & Community Policing (COPS)	16.71	2009-RK-WX-0887		56,227	56,227	
U.S. Dept of Justice	Edward Byrne Memorial Justice Assistance Grant	16.738	2008-DJ-BX-0158		16,204	16,204	
U.S. Dept of Justice	ARRA Internet Crimes Against Children Task Force Program	16.8	2009-SB-B9-1743		43,312	43,312	
U.S. Dept. of Transportation/Pass-through from WA State DOT	Highway Planning and Construction	20.205	ER-0801(094)	17,855		17,855	
U.S. Dept. of Transportation/Pass-through from WA State DOT	Highway Planning and Construction	20.205	HP-1998(029)	31		31	
U.S. Dept. of Transportation/Pass-through from WA State DOT	Highway Planning and Construction	20.205	STPUS-0303(010)	46,614		46,614	
U.S. Dept of Transportation (NHTSA)/Pass-through WA Traffic Safety Commission	State and Community Highway Safety	20.600	N/A	4,828		4,828	

CITY OF BREMERTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2009

1 Federal Agency Name/Pass-Through Agency Name	2 Federal Program Name	3 CFDA Number	4 Other I.D. Number	5 Expenditures			6 Foot-note Ref.
				From Pass-Through Awards	From Direct Awards	Total	
U.S. Dept of Transportation (NHTSA)/Pass-through WA Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive	20.601	N/A	1,898		1,898	
U.S. Environmental Protection Agency	Surveys, Studies, Investigations & Special Purpose Grants	66.610	XP-96020701-2		75,737	75,737	
U.S. Environmental Protection Agency	Surveys, Studies, Investigations & Special Purpose Grants	66.610	XP-96023201-1		858,000	858,000	
U.S. Environmental Protection Agency	Brownfields Assessment & Cleanup Cooperative Agreements	66.818	BF-96046501-1		7,032	7,032	
U.S. Environmental Protection Agency/Pass-through WA State CTED	Capitalization Grants for Drinking Water State Revolving Funds	66.468	03-65103-010	182,064		182,064	
U.S. Environmental Protection Agency/Pass-through WA State CTED	ARRA Capitalization Grants for Drinking Water State Revolving Funds	66.468	DR09-952-075	355,072		355,072	
U.S. Environmental Protection Agency/Pass-through WA State DOE	Capitalization Grants for Drinking Water State Revolving Funds	66.468	L0300034	149,764		149,764	
U.S. Environmental Protection Agency/Pass-through WA State DOE	Capitalization Grants for Drinking Water State Revolving Funds	66.468	L0400003	348,644		348,644	
U.S. Environmental Protection Agency/Pass-through WA State DOE	Capitalization Grants for Drinking Water State Revolving Funds	66.468	L0700011	3,975		3,975	
U.S. Dept of Homeland Security/Pass-through from WA Military Dept	Disaster Assistance	97.036	1734-DR-WA	36,839		36,839	
Total Federal Awards Expended				\$1,420,232	\$2,980,880	\$4,401,112	

The accompanying notes to the schedule of expenditures of federal awards are an integral part of this schedule.

NOTES TO THE SCHEDULE OF FINANCIAL ASSISTANCE

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only federal or state grant portion of the program costs. Including the city's portion, may be more than shown.

NOTE 3 - PROGRAM INCOME

The city has a revolving loan program for low income housing. Under this federal grant, repayments to the city are considered program revenue (Income), and loans of such funds to eligible recipients are considered expenditures.

NOTE 4 - NOT AVAILABLE (N/A)

The city was unable to obtain other identification number.



ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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

State Auditor
Chief of Staff
Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
Director of Special Investigations
Director for Legal Affairs
Director of Quality Assurance
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free Citizen Hotline

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