

City of Poulsbo, Washington

Comprehensive Annual Financial Report



For the fiscal year ended December 31, 2011

CITY OF POULSBO

WASHINGTON

**COMPREHENSIVE ANNUAL FINANCIAL
REPORT**

For the fiscal year ended

December 31, 2011

Finance Director
Deborah Booher

PREPARED BY

THE CITY FINANCE TEAM:

Finance Director
Deborah Booher

Accounting Manager
Jana McQuade

Accounting Technician
Sandi Nannery

Accounting Technician
Kelly Ziemann

Accounting Clerk
Trina Lee

Administrative Assistant
Dawn Hamrick

For comments or questions, contact
City of Poulsbo, Finance Department
360.394.9881

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City of Poulsbo



June 27, 2012

Mayor Erickson,
The Poulsbo City Council, and
Citizens of Poulsbo, Washington:

I am pleased to provide the Comprehensive Annual Financial Report (CAFR) of the City of Poulsbo for the fiscal year ended December 31, 2011. This report is published annually as the official annual financial report and complies with state law (RCW 43.09.230) requiring annual reports for Washington municipal governments to be certified and filed with the State Auditor's Office in a timely fashion.

As management for the City, we are responsible for both the accuracy of the data, and the completeness and fairness of the presentation, including all related disclosures. The City operates under a system of accounting internal controls that are concerned with the safeguarding of assets and the reliability of financial records. The definition of accounting control assumes reasonable, but not absolute, assurance that the objectives expressed in it will be accomplished by the system. The concept of reasonable assurance recognized that the cost of internal control should not exceed the benefits expected to be derived.

Cities and counties of the State of Washington use the Budgeting, Accounting and Reporting System (BARS) developed and prescribed by the Office of the State Auditor. State law provides for an annual independent audit to be conducted by the Office of the State Auditor.

As a recipient of federal, state and county financial assistance, the City is required to undergo an annual federal mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The City's Single Audit Report is issued separately and is available upon request.

Generally Accepted Accounting Principles (GAAP) requires management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of *Management's Discussion and Analysis (MD&A)*. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Poulsbo's MD&A can be found immediately following the independent auditor's report.

Profile of the Government

The City of Poulsbo is located in Kitsap County, west of Seattle. Originally settled by Norwegian immigrants in the late 1800's on Liberty Bay, a fjord of Puget Sound, Poulsbo continues to maintain its Scandinavian atmosphere through its architecture, celebrations and hospitality. Holding to its Scandinavian heritage has earned the city the nickname "Little Norway" and visits from two Norwegian Kings.

The City of Poulsbo has a strong Mayor form of government, organized under the Optional Municipal Code as provided in State law. The Optional Municipal code confers a limited form of "home rule" to those municipalities organized under this provision. The independently elected mayor is the executive officer of the

City and is responsible for all administrative transactions of the City, for overseeing the day-to-day operations of the City, and for appointment of department heads. The City Council is the policy-making branch and is responsible for, among other things, passing ordinances, exercising legislative and quasi-judicial functions, and adopting the budget. The seven members of the City Council and mayor serve four-year staggered terms, with four council positions up for election one year and then two years later, the mayor and remaining the three council positions appear on the ballot.

To provide a full range of services to its citizens, the City of Poulsbo is divided into departments, financial management and control systems. Services provided include: police protection; maintenance of water and sewer services; garbage and recycling disposal; street maintenance, construction and repair of facilities and assets; municipal court; land use administration, and general administration. The City designs and maintains many parks and green spaces, coordinates recreation activities, fosters neighborhood livability and works to preserve the City's environmental quality and historic legacy. Additional information may be found in the Notes to the Financial Statements, thus readers are encouraged to review this CAFR in its entirety.

Local Economy

Poulsbo has evolved from a small town with fishing and farming as its chief industries into a city that has marketed itself as a very attractive place for people to live, work and visit.

Poulsbo's economy is largely influenced by the presence of significant Naval bases, its geographic location for a commuting workforce to Seattle and other large cities, as well as an entrance point for access to the Olympic Peninsula. Serving as North Kitsap's commercial and employment center, Poulsbo has been able to maintain a conservative growth of economy during the on-going national recession. Economic development continues to diversify consistent with the City's long range plan. The City encompasses over 2949 acres and for economical analysis and contrasting purposes is divided into four geographical areas:

- Central Downtown Poulsbo – the Historic area and waterfront
- West Side Junction Area – Viking Avenue Corridor
- East Side State Highway 305 and Lincoln Hill
- Northwest Corner College Market Place

Centrally located in the heart of Poulsbo, the downtown area has maintained its history including restoration of many of the original buildings. Graced with a photographic waterfront parkway and boardwalk, the area invites tourists to shop and spend an afternoon or weekend. Poulsbo's waterfront is active year round and a favorite destination for day excursions and vacationing boaters. Poulsbo has continued to witness new food establishments open in the downtown corridor providing many dining options for City residents and visiting tourists. Many are referring to the increased activity as "Destination Dining". Along with commerce the City assisted the economy by completing and moving into City Hall located in the heart of the historic downtown corridor. The Police Department completed their move to the new building creating a one stop shop for City residents. The building offers multiple meeting rooms available to the public bringing more opportunities for visitors and citizens to support the local economy.

On the west side of the City, the Viking Avenue Corridor has been very busy. The City received American Recovery & Reinvestment Act Federal Grant in 2009 that carried over into 2010. The grant was used to improve the entry into the City and improve traffic and pedestrian safety on the north and south end of the avenue. Allowing all entry points into the City a smooth and easy transition as well as providing a center turn-lane and

sidewalks for the entire corridor. Also on the west side, the city, along with hundreds of volunteers have worked on the development of the 20 acre Fish Park that boasts trails, boardwalks, viewing platforms, interpretive signs and numerous forms of wildlife. The City was donated a parcel of land and able to purchase through grant proceeds an additional parcel land to connect with Fish Park. These parcels will be developed in accordance with the park master plan and allow additional public access for viewing the Poulsbo's natural shoreline.

Unfortunately Poulsbo was not exempt from some of the economic challenges as experienced by the rest of the nation. While some new businesses opened their doors, there were also some long time establishments which closed their doors. Unfortunate victims of the national economy were automobile dealerships occupying much of the Viking Avenue corridor. The Mayor and City Council continue to work actively with current business owners to support growth, stability and encourage new potential opportunities.

The newest and fastest growing area of the City is located in the northwest corner, called College Market Place. This is a 215- acre development which is anticipated to take approximately 10 years to become fully developed. The master plan includes commercial buildings, business parks, single and multi-family units as well as a satellite campus of Olympic Community College. As of today, several anchor stores including Wal-Mart, Home Depot, Petco, Big 5 and Office Max are located in the development. Several other businesses are located in adjacent strip malls. The growing retail development has significantly helped reduce the impact of the declining revenues in other areas of the City. The local economy has slowed the anticipated construction; however it has not come to a complete standstill. A medical center and beverage distributing warehouse opened their doors in 2010. Jack in the Box opened their doors in 2011 and Wendy's began construction planning to open for business in early 2012. Conversations regarding future development in this area continue for establishments such as additional medical centers, gas station, ball fields and a possible addition to the existing college campus.

The City of Poulsbo continues to promote smart growth with new businesses coming into the area and providing local employment as well as maintaining our "small town" atmosphere. The depth and impact of the on-going recession has changed the way the City looks at revenues and expenditures; we will have to do more with less until revenue sources stabilize and grow. However, Poulsbo is a very fortunate community where the leaders have been conservative in spending. Excess funds have been banked in reserves to help stabilize the declining revenues. We feel government, citizens, and developers working together can successfully accomplish the goal of keeping Poulsbo the premier place to live and work on the Kitsap Peninsula.

Cash Management

Careful financial control of the City's daily operations is an important part of Poulsbo's overall fiscal management program. Achieving adequate cash management and investment control requires sound financial planning to ensure sufficient revenues are available to meet the current expenditures of any one operating period.

The City has amended their Financial Management Policy, to require the Fund Balance be in excess of twelve percent of the operating revenues and cash and investment balances to be in excess of two months of operating expenses. This is consistent with GFOA's recommended practices. These items are reviewed quarterly with Council Members to assure compliance or bring focus to an area, which may not be meeting the minimum levels.

Once steps are taken to ensure the City maintains a protected cash position in its daily operations, it is to the City's advantage to prudently invest idle funds until such time as they are required to make expenditures according to the following guidelines:

- The City's idle cash will be invested on a continuous basis in accordance with the City's adopted investment policies.
- The City has and will maintain a formal investment policy that is reviewed and endorsed by professional financial organizations.
- The City will invest all funds (in excess of current requirements) based upon the following order of priority: 1) Legality, 2) Safety, 3) Liquidity and Yield.
- Investments with City funds will not be made for purposes of speculation.
- The City is prohibited from investing in any financial instruments that are not approved for legal investments for municipalities in the State of Washington.
- Proper security measures will be taken to safeguard investments. The City's designated banking institution will provide adequate collateral to insure City funds.

Long Range Financial Planning

The City continues to not only look at current financial conditions, but improve and incorporate long range planning. A model with several years of actual data and using the information to project out five years was developed and used to work with City Staff and elected officials to plan for operating and capital budgets. As with all statistical and trending information, it is used with caution, as there can be conditions and impacts which do not follow the trend. Experiences with the recent economic downturn resulted in an adjusted budget knowing the trend needed to be altered. The 2011 budget was developed reducing staffing levels, delaying capital acquisitions, postponing capital projects and reducing operating budgets. The City updates the Capital Improvement Plan to be consistent with the City's long range comprehensive and functional plans; reviewing priorities and assuring there is funding for those projects set for the future years. Due to conservatism and knowledge that the plan is a tool and not an exact science, the City has a healthy reserve balance to support fluctuations from the plan.

Risk Management

During 2011, the City continued its liability and property coverage as a member of the Association of Washington Cities Risk Management Service Agency. The City continues to take advantage of the risk management training offered through AWC/RMSA education programs. The City's industrial insurance is provided by Washington State and is administered by the Department of Labor and Industries. Coverage is purchased by means of standard state assessed rates per working hour which are computed using risk categories as well as the City's loss history.

Awards

The City of Poulsbo has committed itself to financial excellence for many years as experienced by the receipt of the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting as well as the Distinguished Budget Presentation Award. Commitment to the residents of the City of Poulsbo has always been full disclosure of the financial position of the City.

The City has received the Distinguished Budget Presentation award for several years, including the 2011 Budget.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Poulsbo, Washington for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2010.

In order to be awarded a Certificate of Achievement a governmental unit must publish an easily readable and efficiently organized CAFR that conforms to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the requirements and standards of the Certificate of Achievement Program, and we are submitting the 2011 Comprehensive Annual Financial Report to the GFOA for review. The Certificate of Achievement is the highest form of recognition in the area of Governmental Financial Reporting, and its award represents significant accomplishment by a government and its management.

Acknowledgements

The preparation of this Comprehensive Annual Financial Report represents the culmination of months of collaborative teamwork by the entire Finance Department staff. The preparation of this report could not have been accomplished without the professional, efficient and dedicated staff of the Finance team, and to each member I extend my sincere appreciation, in particular to our Accounting Manager, Jana McQuade, who manages the CAFR preparation.

Further appreciation is also offered to the City's management team, the Mayor, and the City Council for their encouragement, interest and support in conducting the financial operations of the City in a sound and progressive manner. In addition, I would express thanks to the efficient assistance of our local auditor from the Washington State Auditor's Office.

Respectfully submitted,



Deborah L. Booher
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Poulsbo Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



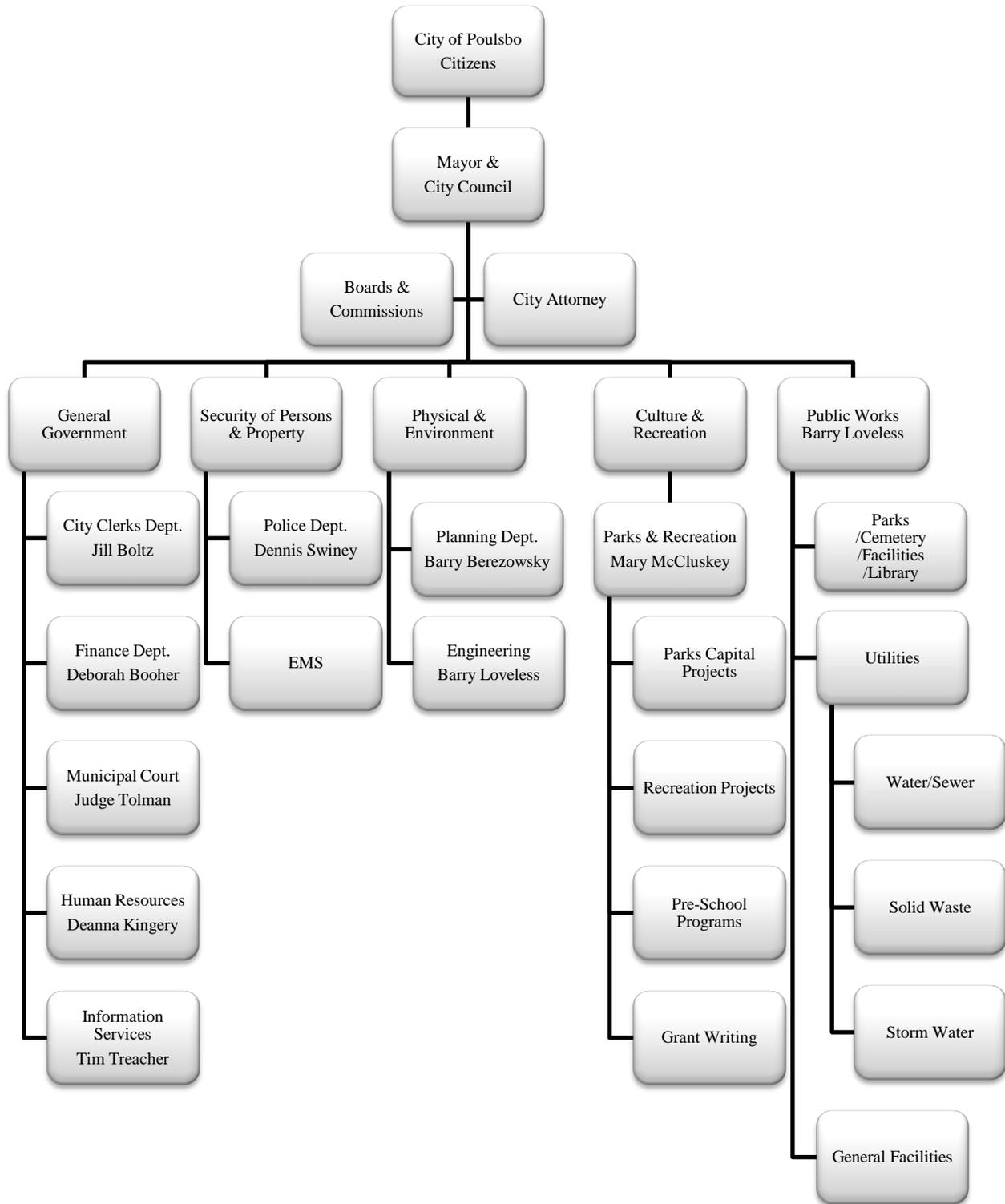
Linda C. Davidson

President

Jeffrey R. Emer

Executive Director

City of Poulsbo Organization Chart



City of Poulsbo Officials

As of December 31, 2011

Mayor

Becky Erickson

December 31, 2013

City Council

David Musgrove

December 31, 2013

Ed Stern

December 31, 2013

Jim Henry

December 31, 2013

Linda Berry-Maraist

December 31, 2015

Gary Nystul

December 31, 2015

Connie Lord

December 31, 2015

Jeff McGinty

December 31, 2015

Executive Staff and Legal Counsel

City Clerk

Jill Boltz

Finance Director

Deborah Booher

Parks & Recreation Director

Mary McCluskey

Planning Director

Barry Berezowsky

Police Chief

Dennis Swiney

Public Works Director

Barry Loveless

Municipal Judge

Jeffrey Tolman

Prosecutor

Kitsap County Prosecutor

City Attorney

Jim Haney, Ogden Murphy Wallace

Bond Attorney

Preston Gates and Ellis



Washington State Auditor Brian Sonntag

INDEPENDENT AUDITOR'S REPORT

June 20, 2012

Mayor and City Council
City of Poulsbo
Poulsbo, 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 Poulsbo, Kitsap County, Washington, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. 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 Poulsbo, Kitsap County, Washington, as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8, during the year ended December 31, 2011, the City has implemented the Governmental Accounting Standards Board Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions.

In accordance with *Government Auditing Standards*, we will also issue our report dated June 20, 2012, 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. That report will be issued under separate cover in the City's Single Audit Report. 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 26 and information on postemployment benefits other than pensions on page 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 information listed as combining financial statements and supplementary information on pages 71 through 104 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as Introductory and the Statistical Section is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with a large initial "B" and "S".

BRIAN SONNTAG, CGFM
STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) of the City of Poulsbo's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

This Management's Discussion and Analysis (MD&A) combined with the Transmittal Letter, the Financial Statements and the Notes to the Financial Statements represent the complete 2011 financial activities for the City of Poulsbo.

These are all intended to:

- Assist the reader in focusing on significant financial issues
- Provide an overview of the City's financial activity
- Identify changes in the City's financial position
- Identify any material deviations from the financial plan and adopted annual budget
- Identify individual fund issues or concerns

FINANCIAL INFORMATION

The City's government wide financial statements have been prepared on the full-accrual basis of accounting in conformity with generally accepted accounting principles (GAAP). The City's Fund Financial Statements for governmental funds have been prepared on the modified accrual basis in conformity with GAAP. The City's proprietary funds are accounted for on the accrual basis.

The City of Poulsbo's financial system integrates financial and administrative controls that ensure the safeguarding of assets and the reliability of financial reports. These controls are designed to provide:

- Reasonable assurance that transactions are executed in accordance to management understanding and approval
- Reasonable assurance that transactions are executed in accordance to GAAP principles
- Accountability for control of assets and obligations
- Assurance that sufficient reporting and review exists to provide adequate information for analysis and comparability of data

Internal control is a high priority for the City. The Washington State Office of the Auditor (SAO) reviews the City's internal controls, and the City receives and takes action on all recommendations made by SAO.

FINANCIAL HIGHLIGHTS

- City of Poulsbo assets exceeded its liabilities at the close of the 2011 fiscal year by \$116 million (net assets). Of this amount, \$17.3 million (unrestricted net assets) may be used to meet the city's ongoing obligations to its citizens and creditors.
- Reported net position increased \$1.7 million. Net position of governmental activities increased \$1.8 million, or 2.9%, during 2011. Net position of business-type activities decreased \$118 thousand, or -.23%, during 2011. The increase in governmental activities is largely due to construction of City Hall, several transportation projects such as Noll Road and Fjord Drive in Poulsbo, and addition of park land. The decrease in Business Type assets primarily due to a prior period adjustment for depreciation. Items in our fixed asset system were not correctly marked for

depreciation. When corrected it resulted in a \$1.2 million prior period adjustment to the expenditure and accumulated depreciation. Also affected is the net effect of minimal utility projects offset by the depreciations of existing assets.

- Investments in capital assets net of debt, increased \$610 thousand. This is a fairly small increase, as one of the largest Governmental Projects was the City Hall which was primarily funded by Long Term Debt.
- Total liabilities decreased by \$793,405 million. This is a net amount of a new debt less debt principal payments reducing the amount owed for existing issues. A Bond Anticipation note payable had a minimal increase of \$375,000 in 2011 and was offset by the principal payments for existing debt. It is intended in 2012 to issue Long Term Debt to pay the Bond Anticipation note.
- The City entered an agreement with the Poulsbo Historical Society for a portion of the New City Hall to house their museum. The Society made a down payment of \$20,000 in 2010 and continues to make payments based on a 25 year amortization schedule with interest rates comparable to the City's second bond issue. The payments are recorded in General Fund as interest earnings and the principal portion as proceeds from sale of capital. On the government wide statements the entire amount due is reported as a note receivable.
- Overall, the book value of capital assets increased by \$169 thousand. Total capital assets from governmental activities increased \$1.8 million or 2.89%. The increase is primarily due to the increase in capital assets, the City Hall continued construction, large transportation projects, donation and purchase of additional park land. Capital assets of business-type activities decreased \$1.7 million or -3.93%. This is due to accumulated depreciation being more than new capital to offset the expenditure.
- City governmental fund tax revenue has increased an average of 1% per year for the last five years. This average is based on the largest increase in 2010 of 4% and the lowest which was a decrease of 4.94% in 2009. Poulsbo continues to focus and promote diversification. As some businesses have closed their doors and property values have decreased, new businesses and construction have helped offset the declines. The City of Poulsbo implemented a 2% utility tax rate increase to City Utilities at the end of 2010, which has continued through 2011. The increase in tax rate coupled with the rising price of utilities has helped to offset other tax revenue declines.
- The financial statements represent fund balances as required by new GASB regulations implemented for the 2011 statements. Balance Sheets display fund balances in the following manner:
 - Unassigned – Residual net resources without any of the other fund balance limitations. The only fund which has an unassigned fund balance is General Fund.
 - Assigned – Amounts assigned for specific uses such city road maintenance or law enforcement funds not restricted by law
 - Committed – Self-imposed limitations at the highest level of decision makers that requires formal action at the same level to remove such as balances committed by City Council needing a super majority approval for use. Balances for the City of Poulsbo would be amounts allocated for revenue stabilization, legal, and capital acquisition or improvements
 - Restricted – Fund balances which have externally enforceable limitations on use by grantors, creditors or legal restrictions
 - Nonspendable – This is comprised of assets, which will never convert to cash such as inventory or portion of proceeds which cannot be expended because they must be intact such as imprest funds
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4.84 million. Approximately 85% of this total amount, or \$4.1 million, is available for spending at the government's discretion and 15% or \$750 thousand is restricted per debt or legal requirements.

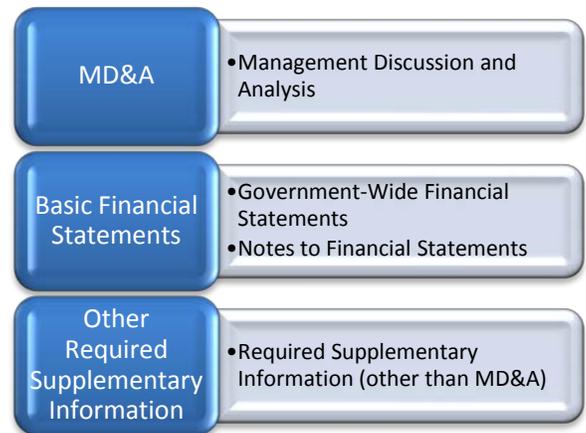
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$269,971 or 3.05% of the total General Fund expenditures. The total General Fund balance inclusive of the amount committed for revenue stabilization and legal expenditures amounts to \$1.9 million which equates 21.5% of General Fund expenditures.
- In 2011 the City completed the arbitration process for the contract with the Police Association bargaining unit which expired 12/31/2009. Based on binding arbitration the City used approximately \$85,000 of funds committed for Criminal justice for the retroactive payments associated with the new agreement.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an introduction and overview to the City of Poulso’s basic financial statements. The basic financial statements are comprised of three components.

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements

This report contains other supplementary information in addition to the basic financial statements, including combining statements for non-major funds, budget to actual comparisons and statistical tables.



Financial statements focus on both the City as a whole (government-wide) and on major individual funds. Both perspectives allow the user to address relevant questions, broaden a basis for annual comparisons and enhance the City’s accountability. A graphic is provided to illustrate the composition of the reports.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Poulso’s finances, in a manner similar to a private-sector business. The statements include all assets and liabilities using the full accrual basis of accounting recognizing revenues and expenses in the current year regardless of when the cash transaction occurred.

The Statement of Net Position presents information on all the City’s assets and liabilities, with the difference between the two reported as net position. Prior to 2011 the statement was referred to as a Statement of Net Assets. The Statement of Net Position serves a purpose similar to that of the Balance Sheet of a private-sector business. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the city is improving or deteriorating.

The Statement of Activities focuses upon both the gross and net cost of various activities that are provided by the government’s general tax and other revenues. This is intended to summarize and simplify the user’s analysis of cost to various governmental services and/or subsidy to various business-type activities. By separating program revenue from general revenue, users of the financial statements can identify the extent to which each program relies on taxes for funding.

In the Statement of Net Position and the Statement of Activities, the City activities are divided into two categories:

- *Governmental Activities* - Most of the City's basic services are reported here, including the police, facilities, parks, planning, engineering and general administration. Taxes (property, sales, and utility) and intergovernmental revenues finance most of these activities.
- *Business-Type Activities* - The City charges a fee to customers to help cover all or most of the costs of certain services provided. The City charges fees to recoup the cost of the operations of water, sewer, storm drain, and solid waste utilities as well as all capital and debt expenses associated with the individual utility.

Fund Financial Statements

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds rather than types. A Major Fund has three elements.

- Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least ten percent (10%) of the corresponding total (assets, liabilities, etc) for all funds of that category or type (i.e. governmental, proprietary, or fiduciary); and
- Total assets, liabilities, revenues, or expenditures/expenses of the individual government fund or enterprise funds are at least five percent (5%) of the corresponding total for all governmental and enterprise funds combined; or
- Any other governmental or enterprise fund that the government's officials believe is particularly important

Governmental Funds: Governmental Funds are used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements. The focus of governmental fund financial statements is on near-term inflows and outflows of available resources and on balances of resources available at the end of the fiscal year. Such information is useful in evaluating whether there are more or less financial resources that can be spent in the near future to finance City services.

Because the focus of governmental funds is narrower than that of the governmental-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This provides the reader a better understanding of the long-term impact of the government's near term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City of Poulsbo maintains budgetary controls over the governmental funds to ensure compliance with state law and council adoption at a fund level.

Proprietary Funds: Proprietary funds are divided into two types: *enterprise funds* provide services to customers outside the City unit; and *internal services funds* that provide services to other City departments. The City uses enterprise funds to account for its water, sewer, solid waste and storm drain activities. Internal service funds are an accounting method used to accumulate and allocate costs internally to the City's various functions. The City uses internal service funds to account for the City's mechanic services, and public works administration. Proprietary funds use the same basis of accounting as business type activities.

Fiduciary Funds: Fiduciary Funds are used to account for resources held for the benefit of parties outside the City. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Position and consist of Agency funds only.

These activities are excluded from the City's government-wide financial statements because the assets cannot be used to finance the City's operations.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided, and are an integral part of the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Statement of Net Position looks at the City as a whole. Table 1 provides a summary comparing the City's net position for 2011 and 2010. Governmental Activities net position has an increase of \$1.8 million. The increase is primarily due to capital improvements and acquisitions including a continued improvement to the City Hall, major transportation improvements and new park land. This amount increased the capital assets, but reduced current and other assets as the funds were used to pay for the construction of the building.

The Business Type Activities had a decrease of \$118 thousand to the Net Position. The decrease was primarily in the category of Capital Assets. This can be attributed to accumulated depreciation reducing the net asset balance. The large increase in accumulated depreciation is due to a prior period adjustment. It had come to our attention that three assets in our software system had been incorrectly marked to not depreciate. When corrected this created a \$1.2 million prior period depreciation correction.

The overall financial position for the City of Poulso has improved over the prior year. In 2011, assets exceeded liabilities by \$116 million, an increase of \$1.7 million or 1.5%. The largest portion of the City's net assets, \$97 million or 84% reflects its investment in capital assets (land, buildings, machinery and equipment, infrastructure and intangible); less any related outstanding debt used to acquire those assets. The City's capital assets are used to provide services to citizens. Consequently, these assets are not available for future spending.

Table 1: Condensed Statement of Net Position

	<u>GOVERNMENTAL</u> <u>ACTIVITIES</u>		<u>BUSINESS-TYPE</u> <u>ACTIVITIES</u>		<u>TOTAL PRIMARY</u> <u>GOVERNMENT</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and Other Assets	\$ 7,042,628	\$ 7,386,920	\$ 13,902,856	\$ 12,802,177	\$20,945,484	\$20,189,097
Capital Assets Net	73,156,030	71,314,333	40,925,260	42,597,656	114,081,289	113,911,990
TOTAL ASSETS	80,198,657	78,701,254	54,828,116	55,399,833	135,026,774	134,101,087
Long-term Debt	11,190,917	11,787,449	3,598,603	3,984,470	14,789,520	15,771,918
Other Liabilities	3,532,603	3,276,086	814,074	881,597	4,346,677	4,157,684
TOTAL LIABILITIES	14,723,520	15,063,535	4,412,677	4,866,067	19,136,197	19,929,602
NET ASSETS						
Invested in Cap Assets Net of Debt	60,292,177	58,447,929	37,042,937	38,276,261	97,335,114	96,724,190
Restricted	733,527	602,068	492,011	434,587	1,225,538	1,036,655
Unrestricted (deficit)	4,449,433	4,587,222	12,880,492	11,822,918	17,329,924	16,410,640
TOTAL NET POSITION	\$65,475,137	\$63,637,719	\$50,415,439	\$50,533,766	\$115,890,576	\$114,171,485

The City's total net assets that are restricted amount to 1%. These represent resources which are subject to external restrictions on how they may be used. The majority of this amount can be attributed to restrictions for debt purposes. The increase in Governmental Restricted Funds can primarily be attributed to receipt of impact fees received in 2011.

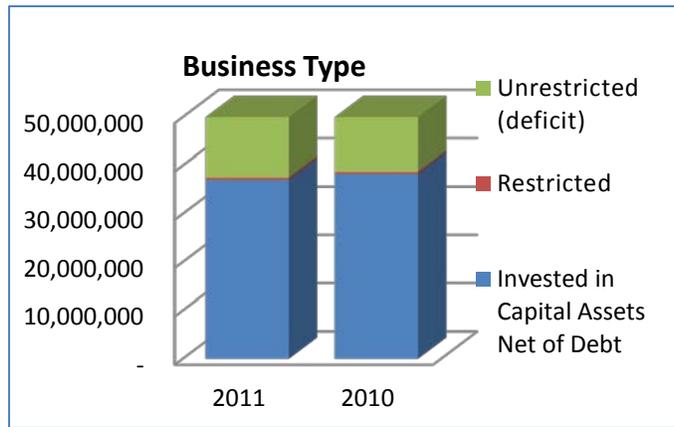
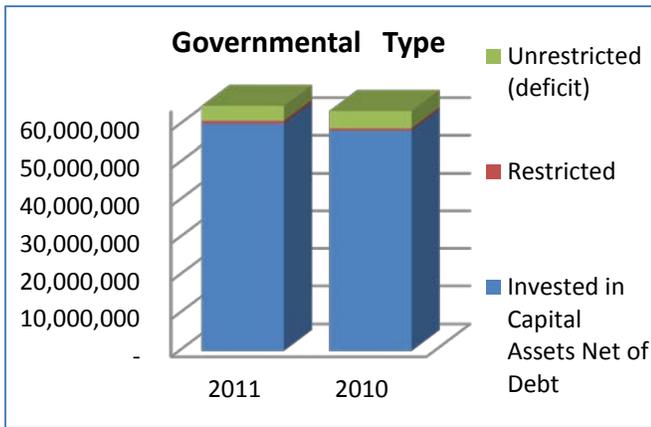


Table 2 illustrates changes in net position for the years 2011 and 2010. This is a condensed version of the Statement of Activities for the City. The revenues for 2011 show a slight increase. The majority of the increase is attributed to 2011 grant revenues and contributed capital for additional park land.

Table 2-Changes in Net Position

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL PRIMARY GOVERNMENT	
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues						
Charges for Services	\$ 1,650,662	\$ 1,443,088	\$ 5,991,054	\$ 5,961,678	\$ 7,641,716	\$ 7,404,766
Operating Grants/Contribr	425,702	477,260	94,789	57,555	520,491	534,815
Capital Grants / Contribr	2,290,353	1,539,559	312,382	221,116	2,602,735	1,760,675
General Revenues						
Property Taxes	2,061,784	2,046,143	-	-	2,061,784	2,046,143
Retail Sales & Use Tax	2,905,695	3,089,028	-	-	2,905,695	3,089,028
Business Taxes	1,991,832	1,873,279	-	-	1,991,832	1,873,279
Other	74,359	104,893	56,345	96,415	130,704	201,308
Total Revenues	11,400,387	10,573,250	6,454,571	6,336,765	17,854,958	16,910,014
Program Expenses						
General government	1,758,688	1,731,193	-	-	1,758,688	1,731,193
Judicial	347,030	372,227	-	-	347,030	372,227
Security of Per & Prop	2,631,619	2,733,363	-	-	2,631,619	2,733,363
Utilities & Environment	493,650	478,035	-	-	493,650	478,035
Transportation	1,685,655	1,731,695	-	-	1,685,655	1,731,695
Economic Environment	633,782	861,538	-	-	633,782	861,538
Mental & Physical Health	14,573	14,481	-	-	14,573	14,481
Culture & Recreation	1,468,720	1,509,164	-	-	1,468,720	1,509,164
Interest Long-Term Debt	553,206	561,569	-	-	553,206	561,569
Water	-	-	1,199,529	1,094,734	1,199,529	1,094,734
Sewer	-	-	2,052,589	1,844,726	2,052,589	1,844,726
Solid Waste	-	-	1,161,445	999,164	1,161,445	999,164
Storm Drain	-	-	935,763	931,723	935,763	931,723
Total expenses	9,586,921	9,993,266	5,349,326	4,870,347	14,936,247	14,863,613
Excess (deficiency)	1,813,466	579,984	1,105,245	1,466,417	2,918,711	2,046,401
Changes in Net Position	1,813,466	579,984	1,105,245	1,466,417	2,918,711	2,046,401
Beginning Net Position	63,637,719	43,208,100	50,533,766	49,067,349	114,171,485	92,275,449
Prior Year Adjustments	23,953	19,849,634	(1,223,572)	-	(1,199,619)	19,849,634
Ending Net Position	\$65,475,137	\$63,637,719	\$50,415,439	\$50,533,766	\$115,890,576	\$114,171,485

GOVERNMENTAL ACTIVITIES

Revenues

Taxes account for the largest revenue category in the governmental funds, generating 61% of the total revenue. The majority of tax revenue is received in the General Fund accounting for 75% of the revenue. Because of this ratio, this category receives the majority of attention. Included in this category are sales, property, utility, criminal justice, and gambling taxes. Governmental fund taxes total \$6,959,311.

Property tax receipts involve the very predictable effect of the 101% levy lid limitation, and a somewhat more variable consideration of new construction. The assessed valuation for property located within the City limits of Poulso for 2011 was \$1,280,709,278. The assessed value did show a significant decrease from the prior year. This is consistent with the national economy as a result of the declining economic conditions, resulting in decreased values and minimal new construction. The property tax amount was not affected as the City was still able to levy the full 1% increase above the highest allowable levy. For 2011, the City’s regular property levy tax rate was 1.61465 per \$1,000 of assessed value.

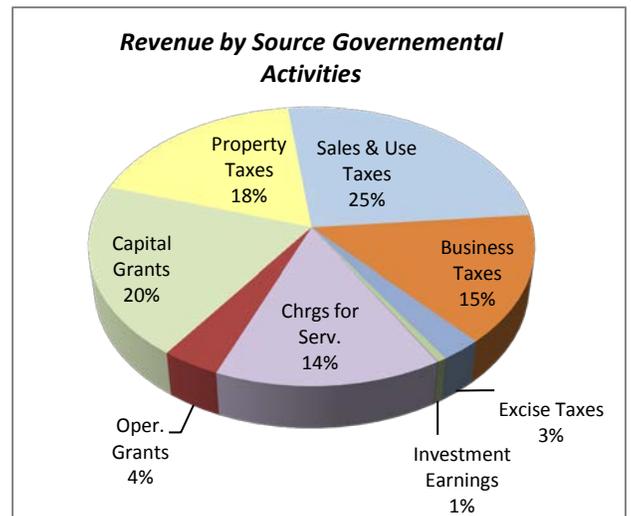
The City continues to follow their policy of transferring 31% of property tax revenue to the City Street Operations Fund, but reduced the transfers by 50% to the Street and Park Reserve Funds for capital projects, transferring 2.15%. The amount transferred for pavement restoration to Street Reserves Fund for capital restoration projects was reduced by 50% to 7%. The reductions allowed more funds to remain in the General Fund for support of operations.

Sales and Use tax revenue, in contrast to property tax, can be a highly fluctuating tax source. Although the City saw a 1% decrease in 2011 it did meet budget projections. The revenue is at the lowest level since 2006 with the exception of 2009. The majority of the decline continues to be in the area of car sales and construction activity. This is consistent with many government agencies impacted by the declining economy. A major auto dealership closed their doors in 2011. One area of sales tax growth is in the category of Accommodation and Food Services. This helps to promote people getting out and shopping in the local community, which is why Poulso continues to remain a thriving community. Sales tax continues to be the City’s largest single source of revenue. The City’s sales tax rate is 1% on all retail sales taking place within the City limits.

In 2011, sales tax received in the City’s General Fund totaled \$2,812,121. The City’s allocation of sales tax revenue was reduced in 2011 to retain more dollars in the General Fund for governmental expenditures: fixed amount of \$31,500 was transferred to the Capital Equipment Acquisition Fund for new capital purchases. A transfer of 1.5% of the sales tax was transferred into the Revenue Stabilization Reserves to build the City’s general government reserves.

The majority of sales tax revenue (61%) comes from the retail trade category. The next largest sales tax category is construction, accounting for 11% of the tax. A large retail development continues to provide an increasing retail tax base with new businesses opening their doors and continued development planned for 2012. Development has been growing at a slower pace than prior years. A new medical facility and distribution center began construction in 2010 and opened for operations in 2011. This helps Poulso continue to grow a diversified revenue base.

Business Taxes are admissions tax and taxes applied to utilities providing services in the City including City-owned and privately owned utilities. On the whole, these taxes tend to be stable reflecting some growth from year to year making up 20% of the



governmental tax revenue. The City increased the tax rate by 2% for City owned utilities. The increase in taxes represents a portion of the growing revenue, but also increases in outside rates support the increase and sustainability of these revenues. As other general revenues have declined, this creates a larger piece of the pie for these taxes.

Expenses

General Government services encompass a variety of services including legislative, executive, financial, legal, judicial, personnel, building maintenance, and audit/risk management.

Judicial services provide support of the City’s Municipal Court system.

Security of Persons and Property services are provided by the City’s Police Department who works to provide professional law enforcement services to keep our citizens and their property safe. Special emphasis is placed on community-oriented programs that will prevent crime and forge a partnership between the officers and the citizens they serve.

Utility and Environment services create a satisfactory living environment for the City’s residents. Inspection of private construction projects and coordinating the design of City projects are two examples of physical environment activities.

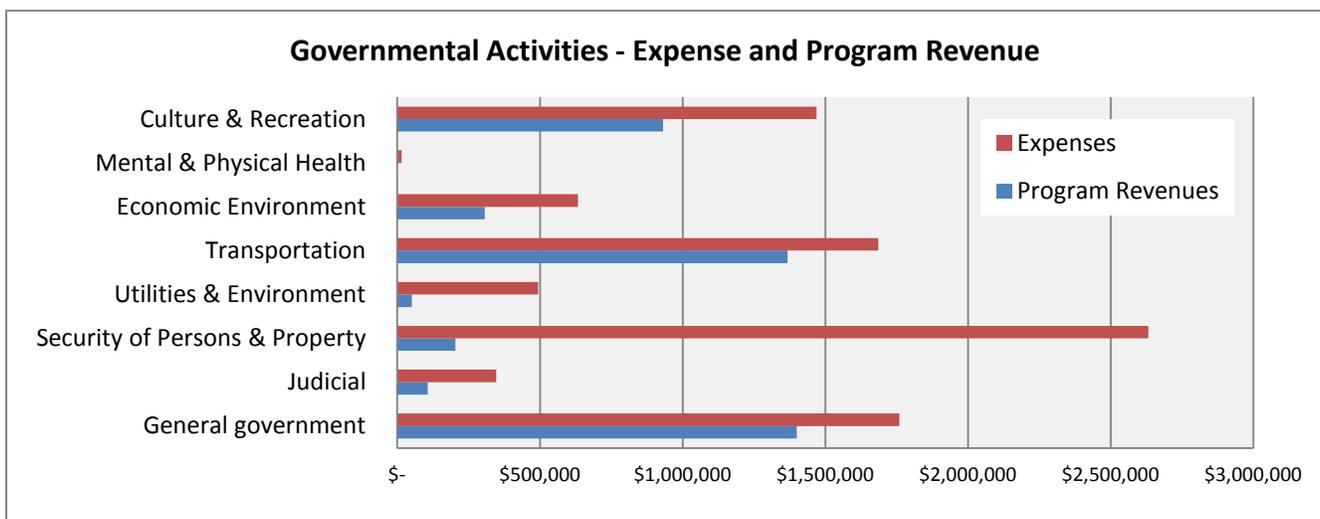
Transportation services provide maintenance of the City’s streets, sidewalks, paths and traffic control signs/signals.

Economic Environment services include land use planning, zoning and community development.

Mental and Physical Health services include the City’s support for the county’s substance abuse program. The City is required by State law to commit 2% of our revenues from liquor profits and liquor tax to this program. The City has a contract with the Kitsap County Health District, which uses a formula based on population and assessed value to determine the City’s level of subsidy.

Culture and Recreation services include expenditures for participant recreation programs and maintenance of the park facilities.

The chart below illustrates the surplus or net subsidy required for different, key City governmental-type programs. As illustrated, very few if any governmental activities are supported by direct revenue, which would mean they are largely supported by tax revenue.

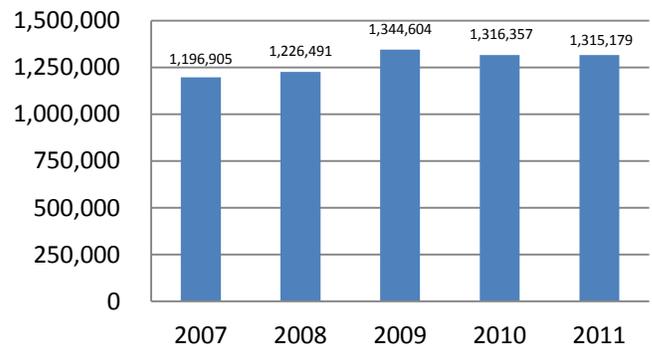


BUSINESS-TYPE ACTIVITY

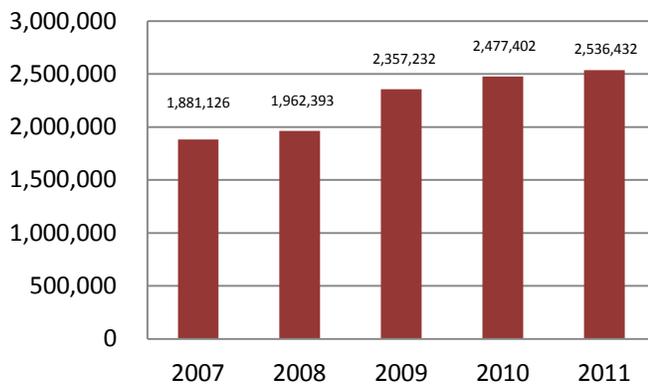
Enterprise Funds: The City of Poulsobo owns and fully operates four utilities: water, sewer, storm drain, and solid waste/recycle. These utilities are accounted for in four enterprise funds as part of the City’s fund structure and operations: 1) water utility fund; 2) sewer utility fund; 3) solid waste utility fund; and 4) storm drain utility fund.

Water Utility: The City’s water utility is solely supported by its customers, and revenue is generally derived from three sources: 1) monthly service charges, 2) system connection fees, and 3) miscellaneous revenues. The majority of revenue comes from monthly service charges. The cost of living adjustment (COLA) for 2011 was negative, which resulted in no increase in the water rate. The 2011 revenue was fairly consistent with 2010 figures.

Water Service Charge Revenue



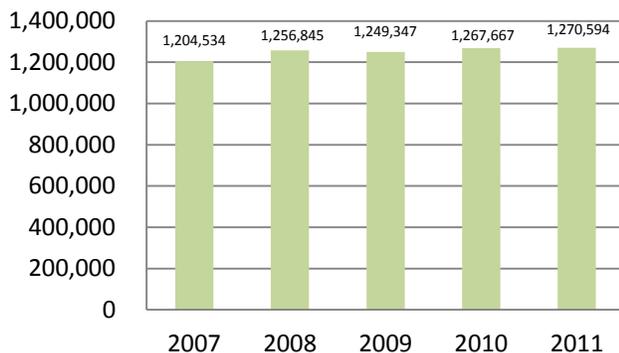
Sewer Service Charge Revenue



Sewer Utility: The City’s sewer utility is also solely supported by its users and revenue is generally derived from three sources: 1) monthly service charges, 2) system connection fees, and 3) miscellaneous revenues. The majority of revenue comes from monthly service charges. The summer months (June through September) charge consumption based on an average water usage during the eight previous months. The rate takes into consideration increased summer usage for watering, which does not produce additional wastewater. The cost of living adjustment (COLA) for 2011 was negative, resulting in no cost of living adjustment. However, after a

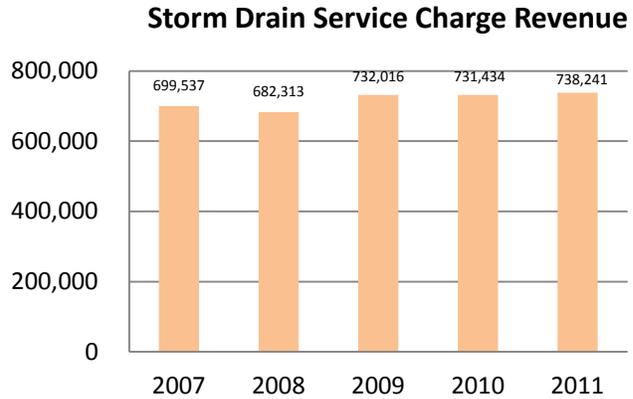
comprehensive review of the sewer system and funds necessary for future sustainability, a new rate structure was put into place in 2009 spanning an increase over three years. 2011 was the third year of this increase, which resulted in a \$60,000 increase in revenues.

Solid Waste Service Charge Revenue

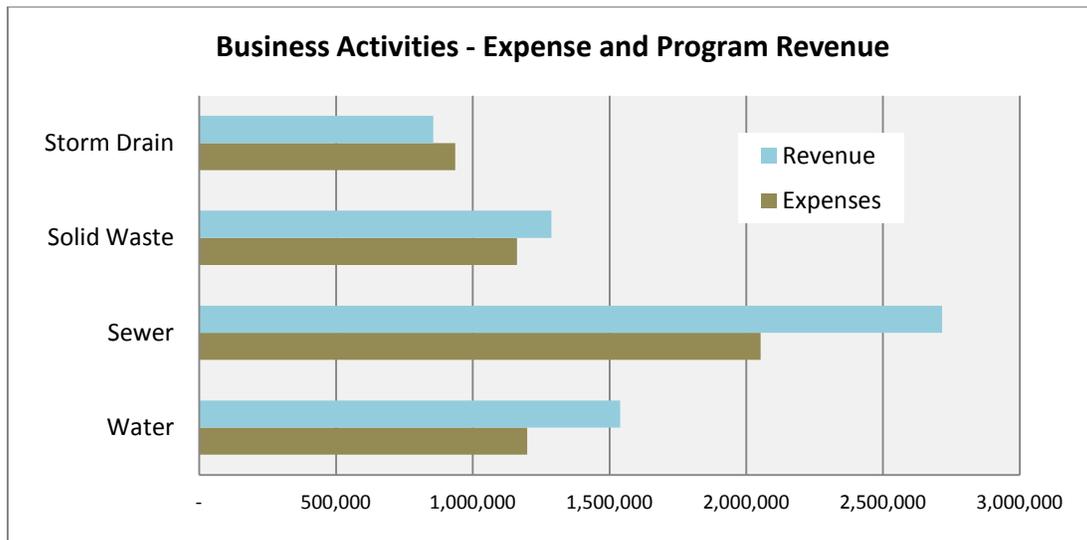


Solid Waste Utility: The solid waste utility is supported by its users and revenue is generally derived from service charges which include: 1) service charges for scheduled residential and regular dumpster garbage collection, and 2) service charges for recycling. The majority of revenue comes from monthly service charges. There was no cost inflator for the rates in 2011 keeping the revenues fairly consistent.

Storm Drain Utility: The City’s storm utility is supported by its users and revenue is generally derived from service charges, which include: 1) monthly service charges, and 2) building permit connection charges. The majority of revenue comes from monthly service charges. Rates are charged to residential and commercial customers by the area of impervious surface units (ISU). The rate structure provides funding for many of the storm water projects identified in the City’s Comprehensive Storm Water Management Plan. There was no increase in the rates for 2011, keeping the revenue consistent with 2010 dollars.



The chart below illustrates the surplus or net subsidy required for the City’s business-type programs.



The City seeks to supplement business activities, as well as governmental activities, through the prudent application of third party funding sources in the form of grants wherever possible. During 2011, business activity program revenues exceeded expenditures because rates were set to accommodate future capital improvements for a fully functioning system. Recently all utilities either implemented or updated their functional plans to evaluate future improvements and operating costs. Rates have been set to reflect these plans. It is anticipated a joint project with the County to upgrade the sewer’s processing plant will need a major upgrade in the near future, which is why sewer revenue has a larger variance between revenues and expenditures than the other utilities.

Internal Service Funds: The City of Poulsbo also has two Internal Service Funds. These account for the goods and services provided to other units of the entity. Payment by the benefiting unit is intended to fund the costs of providing such service. At the end of 2010 the City eliminated one of their Internal Service Funds; Medical Reimbursement Fund. The City no longer self-insured a portion of the employee's deductible eliminating the need for the fund. The City of Poulsbo has two funds that fall into this category: General Facilities Fund and Public Works Administration Fund.

General Facilities Fund: The General Facility Fund is an internal service fund that provides the City with in-house mechanic services. The service is responsible for both major and minor repairs of all mechanical equipment used in the business activity funds including cars, trucks, heavy equipment, portable pumps and generators, and small engines. All general governmental department vehicles and equipment including Police, Engineering, Building, and Parks & Recreation are also serviced by the in-house services. Funding is derived from charges for parts, labor, and overhead. This allows the mechanic shop to be fully self-sufficient. No other funding is used to support this operation.

Public Works Administration Fund: Public Works Administration is an internal service support fund responsible for the overall supervision and administration of the Public Works Department. Public Works Administration is supported by those departments, which include the Streets, Water/Sewer, Solid Waste, Stormwater, General Facilities, Parks, Central Building Maintenance and Cemetery Departments. Expenses associated with the operation of Public Works Administration are allocated based on a percentage of the respective department budgets.

Major Fund Analysis

The City's Funds: Information about the City's major governmental funds begins on page 30. The City, in accordance with GASB 34, performed the major fund calculation and determined that the Street Reserve Fund and the General Fund met the requirements to qualify as major funds. These funds are accounted for using the modified accrual basis of accounting. As reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, governmental funds have total revenues of \$11 million and expenditures of \$11.9 million.

- **General Fund:** General Fund accounts for the main operating revenues and expenditures of the City's governmental functions. Revenues and expenditures related to Clerk, Executive, Legislative, Finance, Police, Engineering, Planning and Park Maintenance are some of the primary functions of the general government accounted for in General Fund. The majority of tax revenues are receipted into the General Fund supporting the governmental functions of the City.

The Fund Balance for the General Fund has been increased by 4%. This is primarily due to the City maintaining a conservative approach to expending funds, sale of capital assets and a prior year adjustment. The City had anticipated using a portion of their reserves in 2011, but this never occurred. This is due to slight increases in utility taxes and expenditures not reaching their anticipated levels due to conservatism, positions remaining vacant for a portion of the year upon employee's exits and a prior year adjustment for a grant reimbursement for prior year expenditures. For several years, actual revenue being generated was consistently higher than the City's conservative projections. With the declining economy, consistent with the national trend, the revenues are primarily at or below projection figures. The City maintains the bulk of general reserves in a Committed Fund Balance which requires a super majority of City Council to approve allocation from this fund balance. Revenues and expenditures saw increases in 2011 due to new accounting standards requiring the closure of several Special Revenue Funds used to segregate revenue and expenditures for programs. The largest of the funds was the Recreation program, which resulted in larger charges for services as well as operating expenses.

- **Street Reserves Fund:** Accounts for major capital improvements to City streets and transportation projects. In 2010 one of the large contributors to the fund continued to be for a project on Viking Avenue, which was funded with federal stimulus funding and state grants. The majority of the project was completed prior to 2011 but a small residual remaining portion was completed in 2011. Additional transportation improvements affecting the fund were improvements to Fjord Drive and Noll Road. Both projects were major construction projects supporting traffic and pedestrian safety as well as maintaining the roadway for increased traffic flow.

The fund balance will fluctuate based on capital projects in construction and use of City reserves to fund the projects.

- **Enterprise Funds:** The City's utilities are accounted for in four enterprise funds: 1) water utility fund; 2) sewer utility fund; 3) solid waste utility fund; and 4) storm drain utility fund. The funds are reported on a full-accrual basis, accounting for all assets and liabilities. Fund balances remained fairly consistent with the prior year, but slightly increased, building stronger fund balances in anticipation of long-term capital projects to maintain a functioning system.

BUDGETARY HIGHLIGHTS

General Fund Budget Analysis: The following is a brief review of the budgeting changes from the adopted to the amended final budget for the General Fund. Please note, budget to actual comparisons start on page 34 for the major current expense and special revenue funds. Budget to Actuals for all other funds begin on page 82. The significant budgetary changes in the General Fund include:

- The final General Fund revenue budget increased by approximately 1.6%, or \$139,788 of the original adopted budget. The majority of the variance was mainly due to transferring reserve dollars to fund the retroactive pay resulting from the final Police Association Bargaining Unit contract. Also included in the increase is grant revenue associated to development of the Shoreline Master Plan.
- The final General Fund expenditure budget increased by approximately 2.8%, or \$250,501. The majority of this variance was due increasing wages and benefits to account for the retroactive pay and increased benefits associated with the settled Police Association Bargaining Unit contract. Also included was an increase to the legal expenses and contracted services for the development of the Shoreline Master Plan.
- The General Fund anticipated Fund Balance increased \$300,000. This is due to more funds being carried over from the prior year since a transfer from reserves was anticipated but not necessary in 2010.
- Copies of the City's Budget and Budget-in-Brief are available on our website www.cityofpoulsbo.com. The complete budget provides details of the City's plans for using its resources during the year hence and may also be obtained by contacting our Finance Director at 360-394-9720 or dbooyer@cityofpoulsbo.com.

CASH MANAGEMENT

Aggressive efforts to maximize interest earnings of temporary cash reserves have been as successful as the economy allows. The City contracts with an investment broker for professional recommendations to maintain security and liquidity of the City's cash in accordance with the City's Investment Policy. The City manages cash accounts by the pooled cash management concept and plans investment maturities to coincide with cash needs. The pool concept provides for investing greater amounts of money at more favorable interest rates.

The City has a Financial Management Policy with recommended levels of cash and reserves. These balances are regularly monitored to assure compliance with the requirements of the policy. In order to use the reserves, which are intended for one time not ongoing expenditures, a super majority of City Council must approve the use. Ongoing obligations will be built into future budgets supported by City revenues. Quarterly, the City Council receives and reviews an extensive variance report including cash levels and budgetary compliance, noting items which are less or greater than the recommended variance.

DEBT ADMINISTRATION

The City participates in various forms of debt, which is summarized as follows: \$12.2 million of a General Obligation (GO) bond type, which includes \$1.825 million Bond Anticipation Note. There are two types of GO debt; those that are retired by tax levies (Voted GO/Levy) and those that, while secured by the tax base, are actually being retired by revenue from the various sources and funds. The City also has two Public Works Trust Fund loans (PWTF). One is recorded in Governmental Activities with a principal balance of \$669,315 and one is recorded in Business-Type Activities with a principal balance of \$183,391.

Revenue bonds are retired by means of revenue in the proprietary funds. There is no general tax liability for these obligations. Revenue bond debt in utilities is controlled by bond covenants and the outstanding principal amount is \$2,614,000.

The City's debt obligations are well within the statutory limits for debt capacity. There are three types of statutory limits on general obligation debt capacity:

1. The first limit is on the amount of general obligation debt that can be incurred without a vote of the people. For this type of debt, a city is limited to 1.5% of its assessed value (\$1,280,709,278), or \$19,210,639;
2. The second statutory limit is the amount of general obligation debt a city may incur for general governmental purposes with a vote of the people. This limit is 2.5% of the assessed value (\$1,280,709,278). For 2011 the City's limit is \$32,017,732, less any amount issued as non-voted debt. At this time the City does not have any voted debt.
3. The third limit is also calculated as a percentage of assessed value. This statutory limit allows a City to incur general obligation debt of up to an additional 2.5% of its assessed value for bond issues approved by the voters for the purpose of utility improvements and an additional 2.5% for parks or open space development.

In 2010 the City took a Bond Anticipation Note in the amount of \$2 million, to complete the City Hall project. It is anticipated that when some City properties which have been identified as a funding piece for the project sell, the proceeds will be used to pay this note. With the real estate market continuing to see a decline coupled with record low interest rates, it is anticipated to issue long term notes at the beginning of 2012. At the end of 2011 the City had drawn \$1.825 million from this line.

Additional information on the City's debt is provided in Note 12, "Long-Term Debt and Capital Lease" and may be found on page 64 of these statements.

CAPITAL EQUIPMENT AND UPGRADING CAPITAL FACILITIES

The City continues to provide for replacement of capital items of \$5,000 or more such as motor vehicles and public works equipment, as well as other miscellaneous equipment through the utilization of the capital replacement fund. These replacements are funded with transfers from the General Fund to the Capital Acquisition Fund. In prior years the Capital

Acquisition Fund's resources were transfers from General Fund established by a percent of Sales Tax dollars. For 2011 these transfers continued to be reduced to leave more operational dollars in the general fund. Capital purchases were delayed or reserve dollars used to purchase necessary capital items.

The City's budget continues to primarily focus on operation and maintenance costs. Annually the City updates the City Improvement Plan (CIP) to prioritize and establish funding sources for capital outlay costs to maintain and upgrade the existing infrastructure. With revenue streams continually being challenged, the City has had the fortune of securing grants for many of the capital transportation and park projects. The City continues to allocate funds for pavement restoration, but the amount was reduced in 2011 to allow more funds to remain in the General Fund for operations. These funds have normally been incorporated into larger projects to complete the restoration and receive the biggest benefit for the dollars. It has become apparent the City must continue to direct more efforts to building maintenance programs and begin to plan for future renovation and replacement. The City continues to look for energy savings measures and revenue streams to support ongoing maintenance of City facilities.

Much of the increase in Capital Assets in 2011 is accounted for in the Governmental Activities. There are many projects contributing to the capital increase, such as continued construction of the City Hall; improvements to Noll Road and Fjord Drive, both very active roads for pedestrians and traffic around the main corridors; and both a purchase and donation of two park lands. The decrease in assets net of depreciation for Business Activities is due to a prior period adjustment for depreciation for assets in the Sewer Fund. The adjustment was to correct depreciation for assets which should have been depreciating, but had been left out of the calculations due to a data input error. Additional information on the City's capital assets is provided in Note 5, beginning on page 52.

Table 3-Capital Assets at Year End, Net of Depreciation

	<u>GOVERNMENTAL</u>		<u>BUSINESS-TYPE</u>		<u>TOTAL</u>	
	<u>ACTIVITIES</u>		<u>ACTIVITIES</u>			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land/Intangibles	8,784,149	26,258,300	942,823	942,823	\$9,726,972	\$27,201,123
Buildings	14,707,904	1,584,616	264,698	129,912	\$14,972,601	1,714,529
Other Improvements	2,915,382	2,998,560	37,458,845	38,396,581	\$40,374,227	41,395,142
Infrastructure	18,737,458	18,504,096		-	\$18,737,458	18,504,096
Intangibles (Depreciable)	20,307,984	554,815	366,921	415,655	\$20,674,905	970,470
Machinery & Equipment	932,927	679,978	724,105	827,619	\$1,657,032	1,507,597
Work in Progress	6,770,226	20,733,968	1,167,868	1,885,066	\$7,938,094	22,619,034
Totals	\$73,156,030	\$71,314,333	\$40,925,260	\$42,597,656	\$114,081,289	\$113,911,990

ECONOMIC FACTORS AND POULSBO IN THE FUTURE

The State of Washington does not have a state personal income tax and therefore the state operates primarily using property, sales, utility, and gas taxes. The City relies on sales, property and utility taxes and a limited array of permitted other taxes, fees, and state and federal grants to support governmental activities.

For the business-type and certain governmental activities (permitting, recreation programs, etc.) the user pays a related fee or associated charge.

Sales tax represents a major revenue source for governmental funds and provides an economic measurement of the local economy. In 2008 the City began to see the impact of the economic slowdown consistent with the national economy. Sales tax revenue showed a 1% decrease in 2011. Much of the decline can be attributed to the loss of tax generated by vehicle sales. Several of the automobile dealerships have now closed their doors leaving vacant business fronts on the Viking Avenue corridor. Through proactive planning the City Council has promoted diversification. This loss of sales tax prior to

2005 would have devastated the City, but because of diversification and promotion of economic development, the City is able to weather the impact and still remain a growing environment and maintain a healthy level of reserves. The City anticipates continued growth, but at a much slower pace than prior to 2009. Several large and small developments, both commercial and residential, continue to work with the City through the planning stages in hopes construction will begin in 2012. Overall the average for the five years preceding 2011 reflected a 1% average decrease. Although the trend has reflected an average decrease, 2010 showed an increase and 2011's decrease was less than 1%. It appears 2012 will maintain the 2011 levels. New potential commercial projects will not only supplement the construction category of sales tax, but provide an additional revenue stream for retail trade.

Although there has been a decline, some areas of the City continue to reflect growth. A new fast food restaurant, medical center and bottle distribution opened their doors in 2011 and an additional fast food restaurant will open in 2012. A housing development constructed their model homes with another 70 homes planned for construction.

The City Council increased the utility tax by 2% in October of 2010. The increase will continue to be evaluated annually in conjunction with the budget process and utility rates. The increase will remain in effect for 2012. The increase was absorbed into the rates showing no additional increase due to the tax increase.

Several large construction projects continued in 2011. The City had two large road construction projects completed in 2011. The first was improvements to Hostmark and Noll Road. This location is parallel to a heavily traveled state highway and adjacent to the local school district facilities including an elementary, middle and high school and a large athletic field. The project included necessary safety improvements for pedestrians and improved vehicle access to all of these sites. The City worked collaboratively with the School District to help meet everyone's needs. The second project was repairs to Fjord Drive, a main street providing access to residential areas and a City park along the picturesque Poulsbo waterfront. The road had been eroded due to a storm in 2009 and was shut down to one-way traffic. The project will also incorporate necessary utility improvements coordinating funds, construction and project management. Improvements were completed allowing the road to again be accessible for two way traffic and safe bicycle and pedestrian travel. Both of these projects were largely funded by federal and state grants.

The City's population in 2011 has grown by 325 people or 4% as reported by the Office of Financial Management (OFM). This significant increase is due to the 2010 census collecting and providing updated data. The daytime population is much higher and will continue to grow as Poulsbo becomes a destination for many county residents to shop, conduct medical treatments and send students to school for all grade levels including Community College. This continues to be a challenge to allow for utilities to provide services in peak hours. The City has established an agreement with the Kitsap PUD (KPUD) to provide water services in a new development which is adjacent to their service area. At this point it has not been necessary for the City to purchase additional water, but some of the new development occurring in the City's formally annexed area will be serviced by the KPUD for water services. This will continue to allow development but not tax the City's water system for fire protection and peak hours. The City will provide sewer, garbage and storm drain service and receive utility tax for all of these services.

The City will continue to update the functional plans related to the updated Comprehensive Plan. New traffic and park impact fees were approved and implemented in 2011.

Washington continues to be a state impacted by tax limiting initiatives and a struggling state budget. The City receives funds related to liquor sales in two different distributions. The first is liquor profits and the second is liquor excise tax. Both are distributed as a state shared revenue based on population. An initiative in 2011 calling for state operated liquor stores to be closed and the ability for retail establishments to apply for a license to sell liquor from their establishment passed. The initiative eliminates state shared liquor profits but calls for local entities to be funded at the same levels which are to be

supplemented by the licensing and permitting fees. The state budget is recommending the reduction or elimination of sharing the excise taxes with local jurisdictions. This has not been settled as there are differing options, but it is clear there will be a reduction. The City will continue to receive liquor profits at the same level since this is a requirement of the approved initiative, however the State is proposing for liquor excise distributions to be eliminated keeping these funds at the state level. At this time, this proposal is still working its way through the state's budget process. The City Council continues to be proactive with other agencies to monitor and lobby for regulations to minimize the impact to the City and provide funds for City services. The City continues to support a possible street utility to provide funding to maintain streets and pay for growing electricity charges related to street lights. Poulsbo's neighbor, Silverdale, is an area with a strong retail sales tax base because of a local mall and all the surrounding major establishments which normally locate within the shopping corridor. It is anticipated there will be a strong push to incorporate Silverdale within the next couple years, which will greatly impact the County. The City will continue to work with these surrounding agencies for sharing of service opportunities and minimize expenses.

The level of taxes, fees and charges for services (including development related mitigation fees) will have a bearing on the City's competitive ability to encourage retail, office, residential, and industrial development to locate in their jurisdiction. The City places significant emphasis on encouraging economic development to attract family wage paying jobs, and as an incentive does not assess a business and occupation tax.

Request for Financial Information

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and to show the City's accountability for the monies it receives. Any questions about this report or requests for additional financial information should be addressed to the Finance Department, City of Poulsbo, 200 NE Moe Street, Poulsbo, Washington, 98370. Personal inquiries may be directed to Jana McQuade, Accounting Manager at (360) 394-9721, jmcquade@cityofpoulsbo.com or Deborah Booher, Finance Director at (360) 394-9720, dbooher@cityofpoulsbo.com.

STATEMENT OF NET POSITION
DECEMBER 31, 2011

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and Cash Equivalents	\$ 392,456	\$ 190,105	\$ 582,561
Investments	4,929,592	12,613,603	17,543,195
Receivables:			
Taxes	970,012	-	970,012
Accounts	36,142	523,251	559,392
Special Assessments	14,720	-	14,720
Other Receivables	35,669	-	35,669
Due from Other Governments	267,221	38,686	305,907
Materials and Supplies Inventory	7,218	28,900	36,119
Deferred Charges	89,113	16,302	105,414
Restricted Assets:			
Investments	124,316	492,011	616,327
Note Receivable	176,169		176,169
Capital Assets (net of accumulated depreciation)			
Land & Right of Ways	28,645,385	942,823	29,588,208
Buildings and Structures	14,707,904	264,698	14,972,601
Other Improvements	21,652,841	37,458,845	59,111,685
Machinery and Equipment	932,927	730,461	1,663,388
Construction in Progress	6,770,226	1,167,868	7,938,094
Intangibles	446,748	360,566	807,314
Total Assets	80,198,657	54,828,116	135,026,774
Liabilities			
Accounts Payable and other current liabilities	543,738	233,558	777,296
Due to Other Governmental Units	49,066	-	49,066
Accrued Interest Payable	53,218	55,901	109,119
Custodial Accounts	233,093	27,454	260,546
Unearned Revenue	143,075	2,814	145,889
Short-Term Note Payable	1,825,000	-	1,825,000
Long-Term Liabilities:			
Due within one year	685,413	494,348	1,179,761
Due in more than one year	11,190,917	3,598,603	14,789,520
Total Liabilities	14,723,520	4,412,677	19,136,197
Net Position			
Invested in Capital Assets, Net of Related Debt	60,292,177	37,042,937	97,335,114
Restricted for:			
Capital Purpose	331,602	-	331,602
Drug Enforcement	24,630	-	24,630
Criminal Justice	137,127	-	137,127
Promoting Downtown Businesses	63,758	-	63,758
Promoting Tourism	39,143	-	39,143
City Beautification-Expendable	33,305	-	33,305
City Beautification-Nonexpendable	91,016	-	91,016
Debt Service	12,946	492,011	504,956
Unrestricted	4,449,433	12,880,492	17,329,924
Total Net Position	\$ 65,475,137	\$ 50,415,439	\$ 115,890,576

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

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Page 1 of 2

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,758,688	\$ 540,342	\$ 116,577	\$ -
Judicial	347,030	106,027	396	-
Security of Persons & Property	2,631,619	169,029	34,296	-
Utilities & Environment	493,650	51,162	-	-
Transportation	1,685,655	9,225	192,777	1,165,762
Economic Environment	633,782	281,722	24,878	-
Mental & Physical Health	14,573	-	-	-
Culture & Recreation	1,468,720	493,156	56,778	1,124,591
Interest on Long-Term Debt	553,206	-	-	-
Total Governmental Activities	9,586,921	1,650,662	425,702	2,290,353
Business-Type Activities:				
Water	1,199,529	1,407,214	-	132,326
Sewer	2,052,589	2,558,143	-	157,750
Solid Waste	1,161,445	1,287,617	-	-
Storm Drain	935,763	738,081	94,789	22,306
Total Business-Type Activities	5,349,326	5,991,054	94,789	312,382
Total Primary Government	\$ 14,936,247	\$ 7,641,716	\$ 520,491	\$ 2,602,735

General Revenues:
 Property Taxes
 Retail Sales & Use Taxes
 Business and Occupation Taxes
 Excise Taxes
 Investment earnings
 Gain (loss) on disposal of capital assets
Transfers

Total General Revenues, Special Items, and Transfers

Change in Net Position

Net Position Beginning of Year
 Prior Period Adjustments

Net Position End of Year

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

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Page 2 of 2

Net (Expenses) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities		Total
\$ (1,101,769)	\$ -		\$ (1,101,769)
(240,607)	-		(240,607)
(2,428,294)	-		(2,428,294)
(442,488)	-		(442,488)
(317,891)	-		(317,891)
(327,183)	-		(327,183)
(14,573)	-		(14,573)
205,806	-		205,806
(553,206)	-		(553,206)
(5,220,205)	-		(5,220,205)
-	340,011		340,011
-	663,303		663,303
-	126,172		126,172
-	(80,587)		(80,587)
-	1,048,900		1,048,900
\$ (5,220,205)	\$ 1,048,900		\$ (4,171,305)
2,061,784	-		2,061,784
2,905,695	-		2,905,695
1,691,487	-		1,691,487
300,344	-		300,344
61,220	56,345		117,565
13,139	-		13,139
-	-		-
7,033,670	56,345		7,090,016
1,813,466	1,105,245		2,918,711
63,637,719	50,533,766		114,171,485
23,953	(1,223,572)		(1,199,619)
\$ 65,475,137	\$ 50,415,439		\$ 115,890,576

BALANCE SHEET-GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General Fund	Street Reserve Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets				
Cash and Cash Equivalents	\$ 305,204	\$ 11,587	\$ 75,664	\$ 392,456
Investments	2,311,051	477,824	2,140,716	4,929,592
Receivables:				
Taxes	6,744	-	30,456	37,200
Accounts	36,142	-	-	36,142
Special Assessments	-	-	14,720	14,720
Due from other govern units	33,489	225,763	7,970	267,221
Inventories	7,218	-	-	7,218
Cash and Investments-Restricted	-	-	124,316	124,316
Total Assets	2,699,848	715,174	2,393,843	5,808,866
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	378,258	49,145	116,336	543,738
Due to Other Governments	49,066	-	-	49,066
Custodial Accounts	233,093	-	-	233,093
Deferred Revenue	131,348	-	11,727	143,075
Total Liabilities	791,764	49,145	128,063	968,972
Fund Balances:				
Nonspendable fund balance	9,843	-	91,016	100,859
Restricted fund balance	-	-	642,511	642,511
Assigned fund balance	1,628,270	666,030	1,532,253	3,826,552
Unassigned fund balance	269,971	-	-	269,971
Total Fund Balances	1,908,084	666,030	2,265,780	4,839,894
Total Liabilities and Fund Balances	\$ 2,699,848	\$ 715,174	\$ 2,393,843	\$ 5,808,866

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

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES**

Total Governmental Fund Balances:

Amounts reported for governmental activities in the statement of
net assets are different because: \$ 4,839,894

Capital assets used in governmental activities are not financial resources and therefore
are not reported in the governmental funds. 73,156,030

These assets consist of:

Land	\$	28,645,385
Buildings and structures		17,229,405
Improvements		30,373,131
Machinery and Equipment		2,830,543
Construction in Progress		6,770,226
Intangibles		634,630
Less: Accumulated Depreciation		(13,327,289)

Other Assets that are not available to pay for current-period expenditures and
therefore are not reported in governmental funds. 1,233,762

Long-term liabilities, including bonds payable are not due and payable in the current
period and therefore are not reported in the governmental funds. (13,754,548)

Interest Payable		53,218
Long-term Liabilities		13,701,330

Net assets of governmental activities \$ 65,475,137

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General Fund	Street Reserve Fund	Non-Major Governmental Funds	Total
Revenues				
Taxes	\$ 6,509,109	\$ -	\$ 466,274	\$ 6,975,383
Licenses and Permits	341,882	-	9,225	351,107
Intergovernmental	139,884	999,236	543,450	1,682,571
Charges for Services	1,504,718	-	205,626	1,710,343
Fines and Forfeitures	85,063	-	-	85,063
Interest and Other Earnings	53,130	944	7,146	61,220
Miscellaneous	61,883	-	76,367	138,250
Total Revenues	8,695,668	1,000,180	1,308,088	11,003,936
Expenditures				
Current:				
General Government	2,609,575	-	-	2,609,575
Security of Persons & Property	2,483,042	-	33,282	2,516,324
Utilities and Environment	479,286	-	-	479,286
Transportation	-	-	740,214	740,214
Economic Environment	630,374	-	-	630,374
Mental and Physical Health	14,573	-	-	14,573
Culture and Recreation	991,503	-	133,956	1,125,459
Debt Service:				
Principal	-	-	634,368	634,368
Interest & Fiscal Charges	-	-	493,171	493,171
Capital Outlay	-	1,350,064	1,312,140	2,662,204
Total Expenditures	7,208,353	1,350,064	3,347,131	11,905,548
<i>Excess of Revenues Over (Under) Expenditures</i>	<i>1,487,315</i>	<i>(349,884)</i>	<i>(2,039,043)</i>	<i>(901,612)</i>
Other Financing Sources (Uses)				
Transfers In	128,386	259,273	1,909,460	2,297,119
Transfers Out	(1,629,392)	(9,500)	(658,228)	(2,297,119)
Proceeds of Other Long-Term Debt	-	-	625,000	625,000
Sale of Capital Assets	16,970	-	-	16,970
Compensation for Impairment of Capital Assets	5,240	-	268,399	273,639
Total Other Financing Sources and Uses	(1,478,795)	249,773	2,144,631	915,609
<i>Net Change in Fund Balances</i>	<i>8,520</i>	<i>(100,111)</i>	<i>105,588</i>	<i>13,997</i>
<i>Fund Balances Beginning of Year</i>	<i>1,874,582</i>	<i>766,141</i>	<i>2,161,222</i>	<i>4,801,944</i>
<i>Prior Year Adjustment</i>	<i>24,983</i>	<i>-</i>	<i>(1,029)</i>	<i>23,953</i>
Fund Balances End of Year	\$ 1,908,084	\$ 666,030	\$ 2,265,781	\$ 4,839,895

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Net change in Fund balance--total governmental funds	\$	13,997
 <i>Amounts reported for Governmental activities in the statement of activities are different because:</i>		
 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 expenditure.		
This is the amount of capital outlays		2,662,204
This is the amount of depreciation		(1,551,863)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the government funds.		
		(19,597)
 Developers construct and then contributed capital infrastructure assets to the City. These assets are reported on the statement of activities but not reported in the fund statements.		
		743,260
 Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds.		
Proceeds on Long-Term Debt		(625,000)
Principal payments		634,368
 Some expenses reported in the statement of activities do not require the use of the governmental funds.		
		(43,904)
		<hr style="border: 1px solid black;"/>
Change in net assets of governmental activities	\$	<u><u>1,813,466</u></u>

The notes to the financial statements 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, 2011**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
Revenues				
Taxes	\$ 6,425,137	\$ 6,535,137	\$ 6,509,109	\$ (26,028)
Licenses and Permits	340,475	340,475	341,882	1,407
Intergovernmental	112,432	168,244	139,884	(28,360)
Charges for Services	1,456,776	1,494,776	1,504,718	9,942
Fines and Forfeitures	67,183	67,183	85,063	17,880
Interest and Other Earnings	115,500	115,500	53,130	(62,370)
Miscellaneous	33,101	45,186	61,883	16,697
Total Revenues	8,550,604	8,766,501	8,695,668	(70,833)
Expenditures				
Current:				
General Government	2,680,394	2,773,304	2,609,575	163,729
Security of Persons & Property	2,478,574	2,605,627	2,483,042	122,585
Utilities and Environment	663,511	503,282	479,286	23,996
Economic Environment	636,766	694,616	630,374	64,242
Mental and Physical Health	13,977	13,977	14,573	(596)
Culture and Recreation	817,354	1,063,103	991,503	71,600
Total Expenditures	7,290,576	7,653,909	7,208,353	445,556
Excess of Revenues Over Expenditures	1,260,028	1,112,592	1,487,315	374,722
Other Financing Sources (Uses)				
Transfers in	38,820	128,386	128,386	0
Transfers out	(1,555,845)	(1,688,010)	(1,629,392)	58,618
Intergovernmental Payment	(5,901)	(5,901)	-	5,901
Sale of Capital Assets	-	4,055	16,970	12,915
Comp for Impairment of Capital Assets	-	5,000	5,240	240
Total Other Financing Sources (Uses)	(1,522,926)	(1,556,470)	(1,478,795)	77,675
Net Change in Fund Balance	(262,898)	(443,878)	8,520	452,397
Fund Balance Beginning of Year	1,453,305	1,864,354	1,874,582	10,229
<i>Prior Year Adjustment</i>			24,983	24,983
Fund Balance End of Year	\$ 1,190,407	\$ 1,420,476	\$ 1,908,084	\$ 487,608

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



**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2011**

	Business-type Activities Enterprise Funds					Internal Service
	Water	Sewer	Solid Waste	Storm Drain	Total	Funds
Assets						
Current Assets:						
Cash and Cash Equivalents	\$ 25,975	\$ 46,593	\$ 66,946	\$ 17,772	\$ 157,287	\$ 32,818
Investments	3,782,680	4,892,731	1,939,755	1,801,369	12,416,535	197,068
Accounts Receivable	102,655	231,164	118,021	71,049	522,889	361
Due from other Governments	-	-	-	38,686	38,686	-
Inventories	22,232	6,212	-	-	28,444	456
Total Current Assets	3,933,543	5,176,701	2,124,723	1,928,876	13,163,841	230,703
Noncurrent Assets:						
Restricted cash, cash equivalents, and invests.:						
Custodial trust funds	-	-	-	-	-	-
Revenue bond covenant investment	108,242	383,768	-	-	492,010	-
Deferred Charges	3,586	12,716	-	-	16,302	-
Capital Assets:						
Land	319,700	277,676	124,678	214,179	936,233	6,590
Buildings and Structures	246,899	253,933	-	16,184	517,017	-
Intangibles	95,439	104,032	-	178,908	378,379	43,582
Other Improvements	14,648,086	23,865,576	-	10,217,166	48,730,827	32,424
Machinery and Equipment	504,455	792,541	884,346	323,197	2,504,540	55,313
Construction in Progress	514,961	308,928	54,318	289,661	1,167,868	-
Less: Accumulated Depreciation	(3,908,043)	(6,880,380)	(659,781)	(1,911,726)	(13,359,929)	(87,583)
Total Noncurrent Assets	12,533,326	19,118,790	403,562	9,327,571	41,383,248	50,325
Total Assets	16,466,869	24,295,491	2,528,285	11,256,447	54,547,089	281,028
Liabilities						
Current Liabilities						
Accounts payable	36,658	77,856	50,319	47,077	211,909	21,649
Accrued interest payable	11,883	44,018	-	-	55,901	-
Rev. bonds payable (net of deferred amt refunded)	83,395	295,672	-	-	379,067	-
Custodial	2,638	24,816	-	-	27,454	-
Deferred Revenue	2,814	-	-	-	2,814	-
Compensated Absences	2,365	3,218	2,820	2,597	10,999	-
Notes Payable	-	50,000	-	-	50,000	-
Due to Other Governmental Units	8,161	37,687	-	-	45,848	-
Total Current Liabilities	147,912	533,267	53,139	49,674	783,992	21,649
Noncurrent Liabilities:						
Rev. bonds payable (net of deferred amt refunded)	469,334	1,664,002	-	-	2,133,336	-
Compensated absences	21,281	28,958	25,381	23,373	98,993	84,333
Notes Payable	-	1,152,830	-	-	1,152,830	-
Due to Other Governmental Units	24,483	113,061	-	-	137,543	-
Total Noncurrent Liabilities	515,098	2,958,852	25,381	23,373	3,522,703	84,333
Total Liabilities	663,010	3,492,119	78,520	73,047	4,306,695	105,982
Net Position						
Invested in capital assets, net of related debt	11,839,711	15,421,769	403,562	9,327,570	36,992,612	50,325
Restricted for debt service	108,242	383,768	-	-	492,011	-
Unrestricted	3,855,905	4,997,834	2,046,203	1,855,829	12,755,770	124,721
Total net position	\$ 15,803,858	\$ 20,803,371	\$ 2,449,764	\$ 11,183,399	\$ 50,240,393	\$ 175,046

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Total business-type Internal Service Fund assets	281,028
Less total business-type Internal Service Fund liabilities	(105,982)
Net assets of business-type activities	<u>\$ 50,415,439</u>

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities Enterprise Funds					Internal Service Funds
	Water	Sewer	Solid Waste	Storm Drain	Total	
Operating Revenues:						
Charges for Services	\$ 1,309,571	\$ 2,520,664	\$ 1,270,529	727,944	\$ 5,828,707	\$ 1,192,783
Other Operating Revenues	97,643	37,479	17,088	10,137	162,347	7,530
Total Operating Revenues	1,407,214	2,558,143	1,287,617	738,081	5,991,054	1,200,314
Operating Expenses:						
Administrative and General	406,982	478,448	343,267	360,269	1,588,966	1,100,574
Depreciation	333,839	583,737	30,356	311,474	1,259,406	12,517
Maintenance	34,316	20,480	70,546	11,059	136,401	-
Contracted Processing and Operations	-	561,568	402,541	-	964,109	-
Operating	390,950	299,824	303,926	248,787	1,243,488	111,292
Total Operating Expenses	1,166,088	1,944,056	1,150,637	931,589	5,192,370	1,224,383
Operating Income (Loss)	241,126	614,086	136,980	(193,508)	798,685	(24,069)
Nonoperating Revenues (Expenses):						
Interest and Other Earnings	17,510	24,973	8,795	4,731	56,009	336
Interest Expense	(24,382)	(88,941)	-	-	(113,324)	-
State Grants	-	-	-	117,095	117,095	-
Amortization of Debt Issue Costs	(4,304)	(15,259)	-	-	(19,563)	-
Total Nonoperating Revenue (Expenses)	(11,176)	(79,228)	8,795	121,827	40,217	336
Income (loss) Before Contributions	229,950	534,858	145,775	(71,681)	838,902	(23,733)
Capital Contributions	132,326	157,750	-	-	290,076	-
Change in Net Position	362,277	692,608	145,775	(71,681)	1,128,978	(23,733)
Total Net Position Beginning of Year	15,441,581	21,334,335	2,303,990	11,255,080		198,780
Prior Year Adjustments	-	(1,223,572)	-	-		-
Total Net Position End of Year	\$ 15,803,858	\$ 20,803,371	\$ 2,449,764	11,183,399		\$ 175,046

Some amounts reported for governmental activities in the statement of activities are different because the net revenue (expense) of certain internal services funds are reported with business-type activities.

(23,733)

Change in Net Assets of Business-type Activities \$ 1,105,245

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Page 1 of 2

	Business-type Activities Enterprise Funds					
	Water	Sewer	Solid Waste	Storm Drain	Total	Internal Service Funds
Cash Flows from Operating Activities						
Receipts from customers and users	\$ 1,416,450	\$ 2,551,744	\$ 1,284,916	\$ 696,915	\$ 5,950,025	\$ 1,200,485
Payments for interfund services provided	(177,188)	(160,472)	(192,840)	(156,673)	(687,174)	-
Payments to suppliers	(364,831)	(930,244)	(663,583)	(130,128)	(2,088,786)	(783,419)
Payments to employees	(282,083)	(256,262)	(248,172)	(330,030)	(1,116,547)	(462,836)
Net cash provided (used) by operating activities	592,348	1,204,766	180,321	80,083	2,057,518	(45,770)
Cash Flows From Noncapital Financing Activities						
State & Federal Grants	-	-	-	117,095	117,095	-
Transfers in (out) to other funds	-	-	-	-	-	-
Net cash provided (used) by noncapital and related financing activities	-	-	-	117,095	117,095	-
Cash Flows from Capital and Related Financing Activities						
Proceeds from Capital Debt	-	-	-	-	-	-
Capital contributions	68,574	157,750	-	-	226,323	-
Purchase of capital assets	(6,859)	(6,850)	(18,557)	13,923	(18,344)	-
Acquisition and construction of capital assets	(342,427)	(201,407)	-	(211,299)	(755,133)	-
Principal paid on capital debt	(92,421)	(355,110)	-	-	(447,531)	-
Interest paid on capital debt	(25,044)	(90,104)	-	-	(115,148)	-
Proceeds from Disposition of capital assets	-	-	-	-	-	-
Net cash provided (used) by capital and related financing activities	(398,177)	(495,722)	(18,557)	(197,376)	(1,109,832)	-
Cash Flows from Investing Activities						
Proceeds from sales and maturities of investments	2,607,935	6,716,949	1,813,856	1,232,979	12,371,718	125,750
Purchase of investment	(2,832,670)	(7,582,395)	(1,931,788)	(1,248,318)	(13,595,171)	(61,806)
Interest and dividends received	17,510	24,973	8,795	4,731	56,009	336
Net cash used by investing activities	(207,225)	(840,472)	(109,138)	(10,608)	(1,167,444)	64,280
Net increase in cash and cash equivalents	(13,053)	(131,428)	52,626	(10,806)	(102,663)	18,510
Cash and cash equivalents Beginning of Year	39,029	178,021	14,321	28,578	259,948	14,308
Cash and cash equivalents End of Year	25,975	46,593	66,946	17,772	157,286	32,818

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Page 2 of 2

	Business-type Activities Enterprise Funds					
	Water	Sewer	Solid Waste	Storm Drain	Total	Internal Service Funds
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating Income (Loss)	241,126	614,086	136,980	(193,508)	798,685	(24,069)
Adjustments to reconcile operating income to net cash provided (used) by operating activities						
Depreciation	333,839	583,737	30,356	311,474	1,259,406	12,517
(Increase)decrease due to prior period adjustments					-	
(Increase) decrease in accounts receivable	11,406	1,262	(2,701)	(41,147)	(31,179)	171
(Increase) decrease in inventories	3,358	17	-	-	3,375	22
Increase (decrease) in accounts payable	(2,464)	(355)	(620)	2,295	(1,143)	(34,705)
Increase (decrease) in Custodial Funds	(2,043)	(7,661)	-	-	(9,704)	-
Increase (decrease) in compensated absences payable	7,125	13,679	16,305	969	38,077	295
Total Adjustments	351,222	590,679	43,341	273,591	1,258,833	(21,700)
Net Cash Provided By Operating Activities	\$ 592,348	\$ 1,204,766	\$ 180,321	\$ 80,083	\$ 2,057,518	\$ (45,770)

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

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUND
DECEMBER 31, 2011

		Agency Fund
Assets		
Cash and cash equivalents	\$	40,733
Investments		23,036
Accounts Receivable		5,960
Total Assets		69,729
Liabilities		
Accounts Payable and accrued expenses		1,464
Retainage Payable		37,748
Custodial funds		30,516
Total Liabilities		69,729
Net Position	\$	-

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

NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The City of Poulsbo, located in Kitsap County, Washington, was incorporated in 1908. It operates under the laws of the State of Washington applicable to code cities with a Mayor-Council form of government. A full-time mayor and seven council members, all elected at large for four-year terms, administer the City. The City provides what are considered general government services including public safety, streets, parks and recreation, planning and zoning, permits and inspection, general administrative, water, sanitary sewer collection, solid waste collection and storm drainage services.

The City's Comprehensive Annual Financial Report (CAFR) includes all funds, agencies and boards controlled by, or dependent on, the City. Control by or dependence on the City was determined on the basis of financial accountability, budget adoption, taxing authority, outstanding debt service secured by revenues or general obligations of the City, obligations of the City to finance any deficits that may occur, or receipt of significant subsidies from the City.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The *Statement of Activities* presents changes in the government-wide net assets by function or program. It focuses on expenses rather than expenditures and shows to what extent direct program revenues offset expenses for a given function. Our policy is to allocate indirect costs to a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from a program; and 2) grants and contributions that are restricted for the purpose of operational or capital use for a particular program. Taxes and other items such as investment interest, not restricted for specific programs, are reported on the statement as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each function is self-financing, or draws from the general revenues of the City.

The *Statement of Net Position* presents the financial condition of the City's governmental and business-type activities at year-end. It reports all financial and capital assets including infrastructure and all liabilities, including current and long-term.

During the year, the City segregates transactions related to certain City functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level and include statements for governmental, proprietary, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide statements. In the basic financial statements, the governmental and enterprise fund financial statements focus on major funds. Major individual government 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 requirement 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 60 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, licenses, and interest associated within the current fiscal 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 primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Street Reserve Fund* was established to make improvements to the transportation system. Funding is from State and Federal grants and operating transfers.

The City reports the following major proprietary funds:

The *Water Fund* accounts for providing water services. Its revenues are mostly received from service charges and system connection charges. Expenses are for maintenance and operations of a water supply, storage and distribution system. This fund also reflects the operation of revenue bonds outstanding, the funds available for redemption of bonds, cumulative reserve and construction funds.

The *Sewer Fund* accounts for providing sewer services. Its revenues are mostly received from service charges and system connection charges. Expenses are for maintenance and extensions of drainage, sewer service facilities, maintaining sewer collection and transmission systems. This fund also reflects the operation of revenue bonds outstanding, the funds available for redemption of bonds, cumulative reserve and construction funds.

The *Solid Waste Fund* accounts for operations of the collection and transportation of solid waste. Its revenues are received from service charges. Expenses are made up of the cost of collection and disposal of solid waste.

The *Storm Drain Fund* accounts for the operation, construction, and maintenance of the storm water management system.

Additionally, the City reports the following fund types:

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

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

Capital Project Funds account for the acquisition or development of capital facilities for governmental activities. The major sources of revenue are from proceeds from general obligation bonds, grants, and contributions from other funds.

Internal Service Funds account for the financing of goods and services provided by one City department or agency to another City department or agency on a cost reimbursement basis. The City has two *Internal Service Funds*:

The *General Facilities' Fund* is used to account for the costs of maintaining all City vehicles and construction equipment used by other City departments on a cost reimbursement basis. Each year it is necessary to calculate the activity to determine if services are mostly governmental or business-type in nature. In 2010 the General Facilities Fund was found to be more business-type in nature and thus reflected as such on the government-wide financial statements.

The *Public Works Administration Fund* accounts for the administration support to the City's Streets, Water/Sewer, Solid Waste, Storm Drain, and General Facilities Funds. The Public Works Administration Fund is business type in nature and on the government-wide statements is reported under business type.

Agency funds account for assets held by the City as an agent for private individuals or other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operation.

Permanent Funds account for resources that are legally restricted to the extent that only the earnings, and not the principal, may be used for specific purposes that support the City's programs and benefit the City and its citizens. The City has one *Permanent fund*, the Bernice Borgen Beautification Fund. The fund accounts for a trust established from Ms. Borgen's estate of an original donation of \$90,002 in 2000 and an additional contribution of \$1,014 in 2002. Only the interest earned on this donation can be used for beautification of the City. The City Council has the authority to determine what these expenditures will be. As of year-end, interest available for expenditure is \$33,305. This amount also represents the designated unrealized investment earnings.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are 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 (GASB). Governments also have the option of following subsequent private sector guidance for the business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements so that expenses are not reported twice. Business type activities receive services from governmental-type activities. In 2011, \$614,821 in expenses and the associated revenues has been eliminated from the governmental activities. The expenditures for these services are reflected in the business-type expenses.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are the charges for goods and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition 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. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Cash and Investments

The City's cash and equivalents are considered to be currency on hand and demand deposits with banks. Investments 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 Local Government Investment Pool (LGIP)), or certificates of deposit with Washington State Banks and savings and loan institutions. It is the City's policy to invest all temporary cash surpluses. Interest on these investments is allocated to each fund on the basis of investments owned. These investments are reported on the Statement of Net Assets and Combining Balance Sheets as cash and cash equivalents or investments.

In accordance with City policy and Washington State law, authorized investment purchases include Certificates of Deposit with financial institutions qualified by the Washington Public Deposit Protection Commission, US Treasury and Agency Securities, bankers 'acceptances, bonds of Washington state and any local government in Washington state which have, at the time of purchase, one of the three highest credit ratings of a nationally recognized rating agency, repurchase agreements, the State Investment Pool (which is a 2a7 pool), and mutual funds used specifically for debt issues related to arbitrage.

The City reports its deposit and investment risk disclosures in accordance with GASB 40 (see note 3).

All investments are stated at fair value as of December 31, 2011.

2. Receivables

The City of Poulsbo recognizes receivables in its various funds using the accounting basis required for that fund. These receivables are as follows:

Property Taxes

The City's annual property tax levy is billed and collected by Kitsap County. Taxes collected by the County, but not remitted to the City by year-end, are reported as receivables. Taxes are levied and become a lien on the first day of the calendar year. When property taxes become three years delinquent, the County is required by State statute to foreclose on the property.

Accounts Receivable

Customer Accounts Receivable consist of amounts owed by private individuals or organizations for goods and services provided. Uncollectable amounts are considered immaterial and the direct write-off method is used.

Special Assessments

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments consist of unbilled special assessments that are liens against the property benefited.

3. Interfund Transactions

During the course of normal operations, the City has numerous transactions between City funds. Interfund transactions such as buying goods and services are recorded as revenues and expenditures. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Transfers between funds are included as "other financing sources or uses." Interfund loans, when applicable, are recorded as receivables in the lending fund and payables in the borrowing fund. The City had no interfund loans in 2011.

The City levies a utility tax on the revenues of its own enterprise funds (Water/Sewer, Solid Waste, and Storm Drain). On the fund statements, these taxes are recorded as an expense in enterprise funds, and as revenue in the General Fund.

Other interfund transfers at December 31, 2011 were as follows:

Transfers Out:				
Transfers In:	General Fund	Street Reserve	Non-Major Gov'l	Total
General Fund	\$ -	\$ 9,500	\$ 118,886	\$ 128,386
Street Reserve Fund	134,273	-	125,000	259,273
Non-Major Gov'l Funds	1,495,119	-	414,342	1,909,460
Total Transfers	\$ 1,629,392	\$ 9,500	\$ 658,228	\$ 2,297,119

4. Amounts Due to and from Other Governmental Units

These receivables reflect measurable and available intergovernmental charges for services rendered by, or to, the City for, or by, another government unit.

5. Inventories

Inventories are defined as assets which may be held for internal consumption or for resale. On the government-wide financial statements, inventories are presented at cost on a first-in, first-out basis and are recorded as expenditures when consumed rather than when purchased. On the fund financial statements, the City uses the following policies in valuing and recording inventory items that are used:

- a. Inventories are valued at cost using the average cost method. The costs of inventories in the governmental fund types are recorded as expenditures when consumed rather than when purchased.
- b. 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. The average cost method of valuation which approximates market is used to value the inventory. A physical inventory is taken at year-end.

6. Deferred Charges

Deferred charges in the Water/Sewer Fund consist of unamortized debt issuance costs.

7. Restricted Assets

Restricted Assets include resources reserved for construction and debt service in enterprise funds. Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment are classified as restricted assets on the balance sheet because they may be maintained in separate accounts and their use is limited by applicable bond covenants. The amount listed in the governmental funds represents the permanent trust fund.

8. Note Receivable

Note Receivable consists of the amount owed to the City from the Poulso Historical Society for a portion of real estate sold to house the Poulso Historical Museum.

9. Capital Assets

The City defines a capital asset as assets with an initial, individual cost of \$5,000 or greater and an estimated life in excess of three years. Capital assets include property, equipment, and infrastructure (i.e. roads, bridges, sidewalks, and similar items).

In the fund financial statements, these assets are accounted for and reported based on the measurement focus of the fund. In other words, in the governmental funds, acquired capital assets are accounted for as expenditures when the asset is purchased. In the proprietary funds, the expense is capitalized and the current year's depreciation is reported as the expense.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated assets are valued at estimated fair market value at time of acquisition. Where historical cost is not known, assets are recorded at estimated historical costs. The City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of roads, bridges, storm sewers, and water and sewer distribution and collection systems. Improvements are capitalized but the costs of normal maintenance and repairs, not adding to the value of the asset or materially extending an asset's life, are not.

Property, plant, and equipment of the primary government are depreciated using the straight-line method and reported in the government-wide statements and proprietary funds using the following estimate useful lives:

	<u>Estimated Useful</u>
	<u>Life in Years</u>
Buildings and Improvements	10-100
Equipment	3-25
Roads-collectors and residential	30
Water and Sewer distribution and collection systems	40

10. Compensated Absences

It is the City's policy to permit employees to accumulate earned, but unused, vacation leave up to a maximum of 240 hours. Vacation pay is payable to the maximum upon resignation, retirement, or the death of an employee. Compensatory time is accruable to a maximum of 80 hours.

Sick leave accumulation is unlimited, but the annual accrual could be elected to be cashed out for 50% once a 1,000 hour balance is reached. All sick leave is payable upon resignation, retirement or the death of an employee for 50% up to a maximum balance of 1,200 hours.

In accordance with GASB Statement No. 16, the City accrues vacation pay and no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of the accumulating sick leave benefits that it is estimated will be taken as termination leave prior to resignation. This provides for the termination pay for eligible employees vacation and 50% percent of their sick leave to a maximum of 1,200 hours accrued.

The City's General Facilities internal service fund predominantly serves the business type-funds and, therefore, their compensated absences liability is included with the business-type activities. The entire compensated absence liability is reported on the government-wide financial statements. In the proprietary funds, the entire amount of compensated absences is reported as a fund liability.

In prior years, the General Fund and proprietary funds have typically been used to liquidate these liabilities.

11. Other Post-Employment Benefits

Lifetime full medical coverage is provided to uniformed Police and Fire personnel who became members of the Law Enforcement Officers and Fire Fighters (LEOFF 1) retirement system prior to October 1, 1977. A liability for the accumulated unfunded actuarially required contribution is reported in the Statement of Net Position. The actual medical costs are reported as expenditures in the year they are incurred.

12. Custodial Accounts

These accounts reflect the liability for net monetary assets being held by the City in its trustee or agency capacity.

13. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Also, all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities, those once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. When due, bonds, capital leases and long-term loans are recognized as a liability on the governmental fund financial statements.

14. Deferred Revenues

Deferred revenues consist of amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

15. Fund Balance Classification

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

- *Nonspendable* - includes amounts that are either 1) not in spendable form, or 2) legally or contractually required to be maintained intact. Inventories, prepaid items, and permanent trusts are classified as nonspendable fund balances.
- *Restricted* - includes amounts which are constrained for specific purposes that are 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through enabling legislation.

- *Committed* - includes amounts that can be used for specific purposes with constraints imposed by formal action of the highest level of decision-making authority. The authorization specifying the purposes for which committed funds can be used should have the consent of both the legislative and executive branches of government. The City operates under a Mayor-Council form of government. As Executive Officer, the Mayor supervises the administrative process of the City and works with the City Council. The City Council enacts ordinances and resolutions that may impose, modify or rescind fund balance commitments. (The City does not have any committed balances)
- *Assigned* - includes amounts that are intended to be used for specific purposes, but are neither restricted nor committed. The authority for assignment of funds is not required to be the government's highest level of decision making authority. Furthermore, the constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on committed fund balances. The City Council may authorize executive officers to assign fund balances for specific purposes through Council files, ordinances and resolutions.
- *Unassigned* - includes amounts that are not assigned to other funds and do not meet the criteria for being classified as restricted, committed, or assigned. Fund balances that can be utilized for economic stabilization, emergencies and contingencies that do not qualify as restricted or committed are reported as unassigned.

	<u>Nonspendable Purposes</u>	<u>Restricted Purposes</u>	<u>Assigned Purposes</u>	<u>Unassigned Purposes</u>	<u>Totals</u>
General Fund					
General Government	\$ 9,843	\$ -	\$ -	\$ 269,971	\$ 279,814
Stabilization Fund			1,403,715		1,403,715
Legal Reserves			224,555		224,555
Subtotals, General Fund	9,843	-	1,628,270	269,971	1,908,084
Street Reserve Fund					
Transportation Improvements			666,030		666,030
Subtotals, Street Reserve Fund	-	-	666,030	-	666,030
Other Governmental Funds					
Transportation Improvements		210,731	704,288		915,020
Parks Improvements		82,754	204,287		287,041
Cemetery Improvements			59,123		59,123
Capital Improvements		38,118	527,194		565,312
Drug Enforcement		24,630			24,630
Criminal Justice		137,127	37,360		174,487
Promote Downtown Businesses		63,758			63,758
Promoting Tourism		39,143			39,143
City Beautification	91,016	33,305			124,321
Debt Service		12,946			12,946
Subtotals, Other Governmental Funds	91,016	642,511	1,532,253	-	2,265,780
Totals	\$ 100,859	\$ 642,511	\$ 3,826,552	\$ 269,971	\$ 4,839,894

16. Minimum Fund Balances

The City has formally adopted a minimum fund balance policy because it is the belief adequate reserve levels are a necessary component of the City's overall financial management strategy and a key factor in external agencies' measurement of the City's financial strength

General Fund

It will be the policy of the city to maintain a General Fund Reserve at a level of at least equal to twelve percent (12%) of the total General Fund budgeted operating revenue, excluding the beginning fund balance and identified one-time revenue. This shall be in addition to the maintenance of two months operating cash within the General Fund itself.

These operating reserves are maintained to:

- address temporary revenue shortfalls;
- payment of approved expenditures due to cash flow shortage;
- reserves for expenditures deemed necessary by the Mayor and City Council; and
- temporary short-term interfund loans.

Annual contribution will be budgeted from General Fund resources as available to maintain the target reserve level.

Capital Reserve Funds

The city shall maintain capital reserve funds to provide funding for the six years Capital Improvement Plan, less proprietary fund projects. The use of any funds within the Capital Improvement Funds shall be approved by the City Council.

Contributions to the capital reserve funds will be made as per the budget recommendations set by the City Council.

All expenditures drawn from reserve accounts shall require prior Council super majority approval unless previously specifically authorized by the City Council for expenditure in the annual budget

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

The City prepares an annual budget in accordance with the Revised Code of Washington (RCW) 35.33 that is on a basis consistent with accounting principles generally accepted in the United States of America. All funds except custodial agency funds and permanent funds are budgeted to the fund level. Annual appropriated budgets are adopted for all funds and lapse at the end of each year. However, some of the special revenue and capital funds may carry forward budgeted amounts beyond the year for completion of certain projects.

Budget amounts shown in the basic financial statements include the original budget amount and all appropriation transfers and adjustments approved by the City Council, as required. The Mayor is authorized to approve intra-fund budget transfers from one department to another or between line items of the same department. Only the City Council has the authority to increase a given fund's budget. This is executed by City ordinance.

In addition to authorizing the budget, the City Council approves the Capital Improvement Plan. This is a five year plan for capital project expenditures and anticipated revenue sources. Expenditures and revenue for these projects are budgeted in the Capital Project Funds.

The calendar below outlines the process for preparing, reviewing and adopting the annual budget:

MAY – JULY

- Capital Improvement team begins process to update Capital Improvement Plan (CIP)

JULY – AUGUST

- Council meets to review and set budgetary policies
- Budgetary packets with instruction and initial allocations provided
- Revenues are reviewed and forecasted
- Departments meet with Council committees to finalize recommended budget proposals
- Department budget proposals submitted to Finance Department

SEPTEMBER – DECEMBER

- Budget submission reviewed with Mayor
- Mayor's proposed preliminary budget prepared and distributed to Council
- Public Hearings held
- CIP presented to Council
- Additional funding & New Program requests reviewed

- Property tax levy set
- Department budgets presented to full Council for review and discussion
- Preliminary budget with all changed prepared and distributed

DECEMBER

- Final review and adoption of budget

The final budget, as adopted, is published within the first three months of the new budget year and distributed to various governmental agencies as well as to the local library to be available to the citizens and all interested members of the public.

B. BUDGETARY COMPLIANCE

In 2011, there were no City funds that reported actual expenditures above budgeted appropriations. Though specific line items may be exceeded, no fund's appropriations can be legally exceeded. It should be noted, however, that the "Statement of Revenues, Expenditures and Changes in Fund Balances" including the comparisons of "Budget and Actual," could be misinterpreted due to its format and, by so doing, lead one to believe that budgeted expenditures have been exceeded. The City budgets not only expenditures but also "Other Financing Uses" and "Beginning Fund Balances" so as to maintain a budget balance between receipts and disbursements. By increasing expenditure appropriations by the budget values for these items, it can be seen that no City fund has exceeded its legally established appropriation. All budgets lapse at year-end.

Encumbrance accounting is used in all city funds for budgetary control only. Encumbrances (e.g., purchase orders) lapse at year end and, if necessary, are re-appropriated in the following year.

C. DEFICIT FUND EQUITY

The City had no funds with deficit fund equity.

NOTE 3: DEPOSITS AND INVESTMENTS

The City's deposits and certificates of deposit are entirely covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the State of Washington Public Deposit Protection Commission (WPDPC). The FDIC provides unlimited insurance for the City's non-interest bearing deposits and up to \$250,000 insurance on interest bearing deposits and investments through December 31, 2013; the WPDPC covers amounts over \$250,000. As of June 30, 2009, the State of Washington Public Deposit Protection Commission Act of 1969 was amended to require all public depositories within the State of Washington to fully collateralize their uninsured public deposits at 100%.

All surplus cash is invested in accordance with an investment policy approved by Poulsbo City Council. The investment policy has been certified by the Municipal Treasurer's Association and is in compliance with state law. Qualifying investments include obligations of the United States government, Treasury and Agency securities, bankers' acceptances, certificates of deposit and repurchase agreements.

As of December 31, 2011, the City held the following deposits and investments:

Investment Type	Fair Value	Modified Duration	% of Portfolio
Cash			
FDIC or PDPC insured bank deposits	\$ 1,248,221		
In-transit items	(604,517)		
Custodial funds held in agency funds	(63,769)		
Petty Cash on hand	2,625		
Total Cash	582,561		

Investments

US agency securities			
US Treasury Bills, Notes & Bonds	\$ 1,006,950	1.20	6%
Federal Farm Credit Banks	2,999,670	1.90	17%
Federal Home Loan Bank	5,036,980	1.00	28%
Federal National Mortgage Association	3,031,280	1.90	17%
Washington State Local Government Inv. Pool	6,084,642	0.00	38%
Total Investments	18,159,522	1.200	100%
Total Cash, Cash Equivalents, Investments	\$ 18,742,082		

The Local Government Investment Pool (LGIP) is an unrated 2a-7 like pool, as defined by GASB 31. Accordingly, participants’ balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. Per GASB 40 guidelines the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by the LGIP are either insured or held by a third-party custody provider in the LGIP’s name. The fair value of the City’s pool investments is determined by the pool’s share price. The City has no regulatory oversight responsibility for the LGIP which is governed by the Washington State Finance Committee and is administered by the State Treasurer. The LGIP is audited annually by the Office of the State Auditor, an independently elected public official.

Interest Rate Risk: As a means of limiting its exposure to interest rate risk, the City diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. The City coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than five year from the purchase date.

Credit Risk: State law and City policy limit investment to those authorized by the State Statute including commercial paper, bankers’ acceptances, and corporate bonds. It is the City’s policy to limit its credit risk by only investing in commercial paper or bankers’ acceptances with a credit rating of A1 or P1.

Concentration of credit risk: In accordance with its investment policy, the City will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than twenty-five percent of the City’s total investment portfolios will be invested in a single security type or with a single financial institution.

Maximum Allowed Diversification by security type:

U.S. Treasury bills, notes & bonds	100%
U.S. Government Sponsored Enterprises	100%
FNMA	50%
FHLMC	50%
FHLB	50%
FFCB	50%
Other GSEs	10%
Certificates of Deposit & Public Deposits	20%
Bankers Acceptance	10%
WA State LGIP	100%
WA State and Local Bonds	10%
Repurchase Agreement	10%
Other Legal Investments	10%

NOTE 4: PROPERTY TAXES

The City may levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services, however, that amount is reduced by the Kitsap County Library and Kitsap County Fire District 18 annexations. The Library District may levy up to a maximum of \$.50 and Fire District 18 may levy up to a maximum of \$1.50 per \$1,000 of assessed valuation.

This amount may also be reduced subject to the following limitations:

- Washington State RCW 84.55.010 limits the growth of regular property taxes to one percent per year or IPD, whichever is less, after adjustments for new construction and annexations, unless an increase greater than this limit is approved by the voters. If the assessed valuation increases by more than one percent due to revaluation, the levy rate will be decreased.
- The Washington State Constitution limits the total regular property taxes to one percent of assessed valuation, or \$10 per \$1,000 of the market value of a property. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.

For property taxes to be collected in 2011, the City's levy for general governmental services was \$1.614650 per \$1,000 on the assessed valuation of \$1,280,709,278 for a total of \$2,067,897.

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

Property Tax Calendar

Jan 1	Taxes are levied and become an enforceable lien against properties
Feb 14	Tax statements are mailed
April 30	First of two equal installment payments is due
May 31	Assessed value of property is established at 100% of market value for next year's levy
Oct 31	Second installment is due

During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections to be distributed by the County Treasurer in January. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

NOTE 5: CAPITAL ASSETS

All reported capital assets of the City are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement.

Capital asset activity for the primary government for the year ended December 31, 2011, was as follows:

	BEGINNING			
	BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 6,397,064	\$ 2,387,085	\$ -	\$ 8,784,149
Intangible - Right of Way	19,861,236	-	-	19,861,236
Construction Work in Progress	20,733,968	2,583,887	(16,547,629)	6,770,226
Total capital assets not being depreciated	46,992,268	4,970,972	(16,547,629)	35,415,611

	BEGINNING			
	BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental-Type Activities Con't				
Capital assets, being depreciated:				
Buildings	3,926,055	13,303,350	-	17,229,405
Other Improvements	4,824,960	178,855	-	5,003,815
Machinery and Equipment	2,369,488	594,174	(133,120)	2,830,543
Intangible	618,661	15,969	-	634,630
Infrastructure	24,478,524	890,792	-	25,369,315
Total capital assets being depreciated	36,217,688	14,983,139	(133,120)	51,067,708
Less accumulated depreciation for:				
Buildings	(2,341,439)	(180,062)	-	(2,521,502)
Other Improvements	(1,826,400)	(262,033)	-	(2,088,433)
Machinery and Equipment	(1,689,510)	(341,225)	133,120	(1,897,616)
Intangible	(63,846)	(124,036)	-	(187,882)
Infrastructure	(5,974,427)	(657,430)	-	(6,631,857)
Total accumulated depreciation	(11,895,622)	(1,564,786)	133,120	(13,327,289)
Total capital assets, being depreciated, net	24,322,066	13,418,353	-	37,740,419
Governmental activity capital assets, net	\$ 71,314,333	\$ 18,389,325	\$ (16,547,629)	73,156,030
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 942,823	\$ -	\$ -	\$ 942,823
Construction Work in Progress	1,885,066	665,663	(1,382,860)	1,167,868
Total capital assets not being depreciated	2,827,889	665,663	(1,382,860)	2,110,691
Capital assets, being depreciated:				
Buildings	375,637	141,379	-	517,016
Other Improvements	47,392,147	1,371,104	-	48,763,251
Machinery and Equipment	2,541,944	27,813	(9,905)	2,559,852
Intangible	421,961	-	-	421,961
Total capital assets being depreciated	50,731,690	1,540,296	(9,905)	52,262,081
Less accumulated depreciation for:				
Buildings	(245,725)	(6,594)	-	(252,319)
Other Improvements	(8,995,566)	(2,308,841)	-	(11,304,407)
Machinery and Equipment	(1,714,325)	(124,972)	9,905	(1,829,392)
Intangible	(6,306)	(55,089)	-	(61,395)
Total accumulated depreciation	(10,961,922)	(2,495,495)	9,905	(13,447,512)
Total capital assets, being depreciated, net	39,769,768	(955,199)	-	38,814,569
Business-type activity capital assets, net	\$ 42,597,656	\$ (289,536)	\$ (1,382,860)	40,925,260

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

Governmental activities:

General Government	\$ 144,408
Security of Persons and Property	74,437
Utilities and Environment	18,097
Transportation	980,318
Economic Environment	1,003
Culture and Recreation	346,523
Total depreciation expense - governmental activities	\$ 1,564,786

Depreciation expense was charged Business-Type Activities of the primary government as follows:

Business-type activities:		
Water	\$	333,839
Sewer		583,737
Solid Waste		30,356
Storm Drain		311,474
Public Works Administration		12,517
Total depreciation expense - business-type activities	\$	<u>1,271,923</u> *

**Amount does not reconcile to capital asset activity table listed above due to a prior year adjustment*

NOTE 6: EMPLOYEE RETIREMENT AND PENSION PLANS

Substantially, all of the City of Poulsbo’s full-time and qualifying part-time employees participate in one of the State’s retirement systems described below. The cost-sharing multiple-employer defined benefit public employee retirement plans are administered by the Washington State Department of Retirement Systems (DRS). DRS, a department within the primary government of the State of Washington, issues a publicly available CAFR that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained from the Department of Retirement Systems, Communications Unit, P.O. 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 Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

A. PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (PERS) PLANS 1, 2, and 3

Plan Descriptions:

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

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

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 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 Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 retirement benefits are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from

inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is two percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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

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

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

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. (AFC is the monthly average of the 60 consecutive highest-paid service credit months.)

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

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

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

that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, 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.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

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 Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

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

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

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

Judicial Benefit Multiplier

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

Members who choose to participate in JBM will accrue service credit at the higher multiplier beginning with the date of their election, 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 do not choose to participate will: 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.

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	\$ 76,899
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Non-vested	51,005
Total	\$ 262,285

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 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 Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets 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, 2011, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.25%**	7.25%**	7.25%***
Employee	6.00%****	4.64%****	*****

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

**The employer rate for state elected officials is 10.80% for Plan 1 and 7.25% for Plan 2 and Plan 3

***Plan 3 defined benefit portion only.

****The employee rate for state elected officials is 7.5% for Plan 1 and 4.64% for Plan 2.

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

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	9.75%	9.75%	9.75%**
Employer-Local Govt.*	7.25%	7.25%	7.25%**

Employee- State Agency	9.76%	9.10%	7.50%***
Employee- Local Govt.	12.26%	11.60%	7.50%***

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

**Plan 3 defined benefit portion only.

***Minimum rate.

Both the City of Poulsbo and its employees made the required contributions. The City of Poulsbo’s required contributions for the years ending December 31, 2011 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2011	\$ -	\$ 189,702	\$ 51,348
2010	\$ -	\$ 168,988	\$ 47,554
2009	\$ -	\$ 217,322	\$ 58,400

B. LAW ENFORCEMENT OFFICERS AND FIRE FIGHTERS RETIREMENT SYSTEM (LEOFF)

Plan Description:

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

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF 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.

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

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

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

LEOFF Plan 1 retirement benefits are vested after an employee completes 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
20 or more years	2.00%
10 but less than 20 years	1.50%
5 but less than 10 years	1.00%

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

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

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

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

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

LEOFF Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 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 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences 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 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, 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 3 percent for each year prior to age 53. A catastrophic disability benefit equals to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

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

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

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

LEOFF Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while servicing in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving

spouse or eligible child (ren) may purchase service credit on behalf of the deceased member.

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

Beneficiaries of a LEOF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	\$	9,647
Terminated Plan Members Entitled To But Not Yet Receiving Benefits		782
Active Plan Members Vested		13,420
Active Plan Members Non-vested		3,656
Total	\$	27,505

Funding Policy:

Starting on July 1, 2000, Plan 1 employers and employees will 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. Plan 2 employers and employees are required to pay at the level adopted by the 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 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 funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of current-year covered payrolls, as of December 31, 2011 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.24%**
Employee	0.00%	8.46%
State	n/a	3.38%

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

** The employer rate for ports and universities is 8.62%

Both the City of Poulsbo and the employees made the required contributions. The City of Poulsbo’s required contributions for the years ending December 31 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
2011	\$ -	\$ 66,134
2010	\$ -	\$ 70,711
2009	\$ -	\$ 70,861

NOTE 7: RISK MANAGEMENT**C. RISK POOL**

The City of Poulsbo is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2011, 86 municipalities/entities participate in the RMSA Pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and boiler and machinery insurance coverage. Boiler and machinery is included with the property reinsurance carrier and employee fidelity coverage is a stand-alone policy that the AWC RMSA arranges for its members. The AWC RMSA also allows members to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. AWC RMSA, itself, pays out of its own funds all claims up to \$250,000 for liability and \$50,000 for property, and thereafter purchases excess liability insurance through ACE Insurance Company up to \$1 million, and CV Starr, from \$1 million to \$10 million. The excess property coverage is purchased through Allianz with limits up to \$250 million, using the Pool's broker, Arthur J. Gallagher Risk Management Services. AWC RMSA is a cooperative program; the members of the AWC RMSA are jointly liable.

Members contract to remain in the RMSA Pool a minimum of three years and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The Interlocal Governmental Agreement was revised in 2009 and approved by membership in 2010. In accordance with WAC 82.60.02023, the Pool elected its first Board of Directors, comprised of elected officials that are members of AWC RMSA, elected at large.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

The specific financials of the AWC RMSA can be seen in the Annual Report on file with the City of Poulsbo.

The City has not had any settlement exceeding the insurance coverage over the past three years.

NOTE 8: ADOPTION OF NEW GASB PRONOUNCEMENTS**A. GASB STATEMENT NO 54 FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS**

This Statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

B. GASB STATEMENT NO 59 FINANCIAL INSTRUMENTS OMNIBUS

This Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

C. GASB STATEMENT NO 63 FINANCIAL REPORTING OF DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION.

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

NOTE 9: FUTURE ADOPTION OF GASB PRONOUNCEMENTS

The following GASB pronouncements have been issued, but are not yet effective at December 31, 2011:

- GASB Statement No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans
- GASB Statement No. 60 Accounting and Financial Reporting for Service concession Arrangements
- GASB Statement No. 61 The Financial Reporting Entity: Omnibus
- GASB Statement No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements
- GASB Statement No. 64 Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53
- GASB Statement No. 65 Items previously Reported as Assets and Liabilities
- GASB Statement No. 66 Technical Corrections -2012- an amendment of GASB Statement No. 10 and No. 62

The City of Poulsbo will implement the new GASB pronouncements in the fiscal year no later than the required effective date. The City has not yet determined if the above listed new GASB pronouncements will have a significant financial impact to the City of in issuing its financial statements.

NOTE 10: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At December 31, 2011 the City had 11 significant contractual obligations with the following balances:

Amend 4 - Noll Rd	Parametrix	\$ 17,262
Traffic Impact Fee	Karla Boughton	2,913
6th/9th Pumpstation	CHS Engineers	9,859
Task #2 - Bjorgen Creek Culvert Replacement	Parametrix	29,624
Task #5 - Anderson Pkwy LID Retrofit	Parametrix	24,519
Task #1 - 6th Avenue	Parametrix	18,360
Anderson Parkway Utility Survey	ADA Engineering	3,064
Task #6 - Lincoln Rd Improvements Design	Parametrix	826
Task Order - 3rd Ave Improvements Design	MAP Ltd	73,603
Liberty Bay Waterfront Trail	Parametrix	40,362
Development Regulations Update	Karla Boughton	15,450
		\$ 235,840

NOTE 11: SHORT-TERM DEBT

The City had three different parcels up for sale as a funding piece for the New City Hall Project. However, due to the economic downturn those parcels did not sale. In order for the City to finish the New City Hall Project, it was necessary to maintain a line of credit with KeyBank with the anticipation the City will go out for additional bonding in the near future. The City had the following short-term debt activity during the fiscal year ended December 31, 2011:

Date	Transaction	Principal Draw	Interest Rate	Interest Calculated	Debt Principal Outstanding
1/1/2011	Beginning Balance	1,200,000			1,200,000
4/8/2011	Principal Advance	250,000			1,450,000
9/12/2011	Principal Advance	75,000			1,525,000
10/27/2011	Principal Advance	50,000			1,575,000
12/6/2011	Principal Advance	250,000			1,825,000
12/31/2011	Interest Accrued		variable based on Prime	5410	

The interest rate will be determined by the formula noted: (Prime Rate minus 0.08%) times 65.01%=2.06%. "Prime Rate" shall mean the rate announced from time to time by bank as its Prime Rate, with the Prime Rate changing on the date each change in said Prime Rate is announced by Bank. The Prime Rate may not be the lowest interest rate charged by the Bank on commercial or other extensions of credit. Prime Rate as of November 1, 2011 was 2.65%.

NOTE 12: LONG-TERM DEBT

A. BONDS

General Obligation Bonds are a direct obligation of the City for which its full faith and credit are pledged. Debt service is paid from the Debt Service Funds. Debt service for voter-approved issues is funded by special property tax levies. Debt service for non-voted issues is funded from the regular property taxes.

As of December 31, 2011, the governmental long-term debt of the City consisted of the following:

Issuance Date	Purpose	Original Issue	Interest Rates	Maturity Date	Debt Outstanding
2003	Unlimited GO Bonds: Issued to provide funds to payoff the Morris property loan and fund three transportation projects; Finn Hill Rd, Caldart Ave and 10th Avenue.	2,505,000	1.10 - 4.55%	2017	660,000
2005	Limited GO Bonds: Issued to provide funds to finance the Municipal Campus Project that was slated to be on 10th Ave and then was stopped and incorporated into a new City Hall project in the downtown corridor due to public vote	5,185,000	3.25 - 4.30%	2025	4,005,000
2009	Limited GO Bonds: Issued to provide funds for the City Hall Project being constructed at 200 Moe St, which consists of a 30,000 sq ft City Hall facility.	6,015,000	1.4-5.5%	2033	5,460,000
2010	LOCAL Program GO Bonds: Issued to provide funds to purchase the Park and Rec building.	310,000	4.10%	2030	300,000
Total					\$10,425,000

Revenue Bonds are payable from revenues generated by the Water/Sewer Enterprise Fund.

As of December 31, 2011, the long-term debt payable from proprietary fund resources consisted of the following:

Issuance Date	Purpose	Original Issue	Interest Rates	Maturity Date	Debt Outstanding
1998	Water/Sewer Revenue Bonds (Unrefunded portion)	\$ 4,810,000	3.75 - 4.95%	2012	\$ 175,000
2005	Refunding of 1998 Water/Sewer Revenue Bonds	3,134,000	3.45%	2017	2,439,000
Total					\$ 2,614,000

B. PUBLIC WORKS TRUST FUND LOANS

State of Washington Public Works Trust Fund Loans (PWTF) are an intergovernmental loan from the Public Works Board to undertake local public works projects. These loans are a direct responsibility of the City. Poulsbo currently has two such loans. The first PWTF loan of \$869,025, which is being repaid from the Water/Sewer Fund, was used for the Jensen Way sewer improvements. The second PWTF loan of \$1,406,930 which will be repaid from governmental funds, is for Front Street reconstruction. In 2011, payments for interest of \$29,187 and principal retirement of \$120,216 were made.

As of December 31, 2011, the long-term debt payable for PWTF loans consisted of the following:

Issuance Date	Purpose	Original Issue	Interest Rates	Maturity Date	Debt Outstanding
1995	Sewer Improvements to Jensen Way	\$ 869,025	3.0%	2015	\$ 183,391
2000	Street Improvements to Front Street	1,406,930	3.0%	2020	669,315
Total					\$ 852,706

C. NOTES PAYABLE

In March 2009 the City negotiated an agreement to pay Olhava Associates, LP for the City’s share of the Bond Road pump station and force main improvements needed for the College Market Place Development. It is intended as an addendum to the Olhava Development Agreement entered into between the parties in April 2004. The total cost of the improvement was \$ 5,101,894. The parties agreed Olhava Associates, LP’s share is \$ 2,959,098 and the City of Poulsbo’s share was \$2,142,796. The original agreement stated reimbursement would be paid with no interest applied and by using sewer connections fees collected from those whose properties benefited with the completed improvement. As of December, 2011 the City has paid \$ 929,163.

D. DEBT SERVICE REQUIREMENTS TO MATURITY FOR PRIMARY GOVERNMENT

Year Ended Dec 31	General Obligation Bonds Governmental Activities			Revenue Bonds Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 550,000	\$ 453,123	\$ 1,003,123	\$ 396,000	\$ 92,546	\$ 488,546
2013	500,000	435,765	935,765	414,000	76,521	490,521
2014	515,000	419,365	934,365	429,000	62,238	491,238
2015	535,000	401,110	936,110	443,000	47,438	490,438
2016	550,000	381,505	931,505	457,000	32,154	489,154
2017-2021	2,625,000	1,595,106	4,220,106	475,000	16,388	491,388
2022-2026	2,715,000	1,011,099	3,726,099	-	-	-
2027-2031	1,670,000	486,833	2,156,833	-	-	-
2032-2033	765,000	63,800	828,800	-	-	-
	\$ 10,425,000	\$ 5,247,705	\$ 15,672,705	\$ 2,614,000	\$ 327,284	\$ 2,941,284

Year Ended Dec 31	Public Works Trust Fund Loans					
	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 74,368	\$ 20,079	\$ 94,448	\$ 45,848	\$ 5,502	\$ 51,349
2013	74,368	17,848	92,217	45,848	4,126	49,974
2014	74,368	15,617	89,986	45,848	2,751	48,599
2015	74,368	13,386	87,755	45,848	1,375	47,223
2016	74,368	11,155	85,524			
2017-2020	297,473	22,310	319,784			
	\$ 669,315	\$ 100,397	\$ 769,712	\$ 183,391	\$ 13,754	\$ 197,145

E. Arbitrage Rebate

Rebatable arbitrage is defined by the Internal Revenue Service Code Section 148 as earnings on investments purchased from the gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. The City of Poulso monitors its investments to restrict earnings to a yield less than the bond issue, and therefore limit any arbitrage liability. As of December 31, 2011 the City has no arbitrage rebate liability.

F. LONG-TERM LIABILITIES

1. Long-term liability activity:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities				
Bonds payable:				
General obligation bonds	\$ 10,985,000	\$ -	\$ 560,000	\$ 10,425,000
Less Unamortized Bond Discount	(44,935)	-	(4,229)	(40,705)
Plus Unamortized Bond Premium	78,483	-	4,128	74,356
Compensated Absences	619,338	-	7,872	611,466
Due to Other Governmental Units	743,683	-	74,368	669,315
Misc NonCurrent Liability	102,080	34,820	-	136,900
Total Governmental activity long-term liabilities	\$ 12,483,649	\$ 34,820	\$ 642,139	\$ 11,876,330
Business-type Activities				
Bonds payable:				
Revenue Bonds	\$ 2,997,000	\$ -	\$ 383,000	\$ 2,614,000
Less Deferred Amount Refunded	(118,529)	-	(16,933)	(101,596)
Compensated Absences	155,954	38,372	-	194,326
Notes Payable	1,232,317	-	29,487	1,202,830
Due to Other Governmental Units	229,239	-	45,848	183,391
Total Business-type activity long-term liabilities	\$ 4,495,980	\$ 38,372	\$ 441,402	\$ 4,092,951

2. Liabilities due within one year:

Date of Issue	Liabilities Due Within One Year - Governmental Activities	Due within one year
2003	Unlimited GO Bonds: Issued to provide funds to payoff the Morris property/Muni campus loan and to fund three transportation projects. The transportation money will be used to improve Finn Hill Rd, Caldart Ave and 10th Avenue.	155,000
2005	Limited GO Bonds: Issued to provide funds to finance the Municipal Campus Project, which consists of a 30,000 square foot City hall facility, including acquisition of land, civil site work and architecture and engineering costs	220,000
2009	Limited GO Bonds: Issued to provide funds to finance the City Hall Project being constructed at 200 Moe St, which consists of a 30,000 square foot City Hall facility, including civil site work and architecture and engineering costs	165,000
2010	Certificate of Participation to finance the acquisition of the Parks and Recreation facility.	10,000
2000	Due to Other Governmental Units(PWTF)-Street Improvements to Front Street	74,368
	Unamortized premium on GO Bond	4,128
	Unamortized Bond Discount	(4,229)
	Compensated Absences	61,147
Total Governmental Activities		\$ 685,413

Date of Issue	Liabilities Due Within One Year - Business-Type Activities	Due within one year
1998	Water/Sewer Revenue Bonds	\$ 175,000
2005	Water/Sewer Refunded Revenue Bonds	221,000
1995	Due to Other Governmental Units(PWTF)-Sewer Improvements to Jensen Way	45,848
2009	Note Payable	50,000
	Deferred Amount Refunded	(16,933)
	Compensated Absences	19,433
Total Business-Type Activities		\$ 494,348

NOTE 13: CONTINGENCIES AND COMMITMENTS

The City participates in federally assisted grant programs. These programs are subject to program compliance audits by the grantors and their representatives. The audits of these programs for or including the year ended December 31, 2011, have not yet been conducted. Accordingly, the City’s compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City’s annexation to Fire District #18 in 1999 carried with it two contingencies. The first contingency was the City’s obligation to continue paying off the General Obligation bonds for the Fire Hall which were paid off in 2008. The second contingency is to reimburse to the Fire District any leave cashed out by employees that was accrued before the annexation. The City’s portion of the reimbursement is calculated at fifty percent of the cash out. The outstanding leave balance of \$6,697 is included with the City’s compensated absences.

NOTE 14: JOINT VENTURES

In November 1998, the voters approved a measure to create the Poulsbo Library Capital Facilities District along with a voter approved bond issue of \$1.6 million to expand the Poulsbo Library. The Capital Facilities District boundaries reach beyond the City’s boundaries including areas in the County which are also served by the Kitsap Regional Library.

The City, Kitsap County, and the Kitsap Regional Library agreed to be jointly responsible for the improvement of the library with the City being the lead agency for the construction management. The City owns the building and grounds and is responsible for its continued maintenance.

The financials for the Kitsap County Library Capital Facilities District are available at Kitsap County, Washington. County information can be obtained from their website at www.kitsapgov.com.

NOTE 15: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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 the City's employee medical insurance program. 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. A separate post employment benefit plan report is not available.

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 post employment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB No. 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 amortized any unfunded actuarial liabilities over a period of ten years as of December 31, 2011. 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 (NOO) of \$136,900 is included as a non-current liability on the Statement of Net Assets.

<u>Determination of Annual Required Contribution:</u>	<u>Year Ending 2008</u>	<u>Year Ending 2009</u>	<u>Year Ending 2010</u>	<u>Year Ending 2011</u>
Normal Cost at Year End	\$0	\$0	\$0	\$0
Amorization of Unfunded Actuarial Accrued Liability (UAAL)	65,964	61,726	61,726	63,714
Annual Required Contribution	<u>\$65,964</u>	<u>\$61,726</u>	<u>\$61,726</u>	<u>\$63,714</u>
<u>Determination of Net OPEB Obligation:</u>				
Annual Required Contribution	\$65,964	\$61,726	\$61,726	\$63,714
Interest prior year Net OPEB Obligation	0	1,766	3,238	4,594
Adjustments to ARC	0	(3,654)	(6,701)	(9,505)
Annual OPEB Cost	\$65,964	\$59,838	\$58,264	\$58,803
Contributions	(26,720)	(27,120)	(28,146)	(23,983)
Increase in Net OPEB Obligations	<u>\$39,244</u>	<u>\$32,718</u>	<u>\$30,118</u>	<u>\$34,820</u>
Net OPEB Obligation-Beginning of Year	\$0	\$39,244	71,962	\$102,080
NET OPEB Obligation-End of Year	<u>\$39,244</u>	<u>\$71,962</u>	<u>\$102,080</u>	<u>\$136,900</u>

The City’s OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Year Ending	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	Net OPEB Obligation
12/31/2008	65,964	40.5%	39,244
12/31/2009	59,838	45.3%	71,962
12/31/2010	58,264	48.3%	102,080
12/31/2011	58,803	40.8%	136,900

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability (AAL) for benefits was \$684,261 and the actuarial value of the assets was \$0 resulting in a UAAL of \$684,261. 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 statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Actuarial Methods and Assumptions

The City used the alternative measurement method permitted under GASB Statement 45. Actual retirement ages are used of the City’s two LEOFF members who benefit for the purpose of determining the AAL and normal cost. Mortality rates were assumed to follow the LEOFF I rates used in the June 30, 2007 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF I medical study performed in 2007. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 10 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

The following charts show the trends and assumptions used by Milliman in the assumptions:

Medical Inflation Trend			Annual Medical Cost by Age			Aging Factors	
	Medical	Long-Term Care	Age	Non-Medicare	Medicare	Age	Aging Factor
2007	9.0%	4.5%	47	\$5,902	N/A		
2008	8.5%	4.5%	52	\$7,898	N/A		
2009	8.0%	4.5%	57	\$10,569	N/A		
2010	7.5%	4.5%	62	\$14,144	N/A		
2011	7.0%	4.5%	67	N/A	\$6,526		
2012	6.5%	4.5%	72	N/A	\$7,290	0-64	6.0%
2013	6.0%	4.5%	77	N/A	\$7,685	65-71	2.5%
2014	5.5%	4.5%	82	N/A	\$7,879	72-76	1.2%
2015+	5.0%	4.5%	87	N/A	\$8,078	77+	0.5%

NOTE 16: PRIOR PERIOD ADJUSTMENTS

Adjustments related to prior periods were a result of corrections made to the following funds that were considered to be of a material value:

General Fund	\$24,983	Shoreline Master Program grant back billing due to eligibility change.
Non-Voted G/O Debt Fund	\$1,029	Correction of recording receivable payment from the Historical Society used to pay City Hall Debt
Sewer Utility Fund	\$1,223,572	Correction needed to record accumulated Depreciation of three assets that was not activated in the Fixed Asset System.

NOTE 17: RECONCILIATION OF INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

<u>Governmental Activities:</u>		<u>Business-Type Activities:</u>	
Capital Assets, Net of Depreciation	\$ 73,156,030	Capital Assets, Net of Depreciation	\$ 40,925,260
Unamortized Debt issuance costs	89,113	Unamortized Debt issuance costs	16,302
General Obligation Bonds Payable	(12,250,000)	Revenue Bonds Payable	(2,614,000)
Unamortized premium on Bonds	(74,356)	Unamortized discount on Bonds	101,596
Unamortized discount on Bonds	40,705	Notes Payable	(1,202,830)
Due to Other Governments	(669,315)	Due to Other Governments	(183,391)
<i>Invested in Capital Assets, Net of Related Debt</i>	<u>\$ 60,292,177</u>	<i>Invested in Capital Assets, Net of Related Debt</i>	<u>\$ 37,042,937</u>

NOTE 18: SUBSEQUENT EVENTS

In March 2012, the City issued \$ 2,455,000 limited tax general obligation bonds which mature 12/1/2031. These bonds were sold at a premium, netting the City \$69,630. Debt service will be structured with annual principal payments and semi-annual interest payments. Proceeds from the limited tax general obligation bonds will be used to pay-off the line of credit with KeyBank (Bond Anticipation Note) and to refund the City’s outstanding 2003 Limited Tax General Obligation Bonds.

REQUIRED SUPPLEMENTARY INFORMATION
LEOFF I RETIREE MEDICAL BENEFITS
SCHEDULE OF FUNDING PROGRESS
December 31, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2008	\$ -	\$ 708,423	\$ 708,423	0%	-	N/A*
12/31/2009	\$ -	\$ 662,910	\$ 662,910	0%	-	N/A*
12/31/2010	\$ -	\$ 662,910	\$ 662,910	0%	-	N/A*
12/31/2011	\$ -	\$ 684,261	\$ 684,261	0%	-	N/A*

* Since the covered payroll is \$0, the UAAL as a percentage of covered payroll cannot be defined

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds are established to account for the proceeds of specific revenue sources that are internally or legally restricted to expenditures for specific purposes.

The **City Street Fund** accounts for monies received and expenditures made to provide general governmental services for the administration of street-oriented maintenance and repair

The **Capital Improvements Fund** accounts for the receipt and expenditure of the first ¼ of 1% real estate excise tax authorized by State RCW 82.46. These revenues are dedicated for capital purposes defined in RCW 35.43.040, including public buildings and facilities.

The **Cumulative Reserve Fund** accounts for all traffic and sidewalk mitigation fees collected from developers.

The **Historic Downtown Poulsbo Association** accounts for the assessments collected by the City for the use by the downtown business improvement area expenses to promote downtown business.

The **Paths & Trails Fund** receives its funding from the .5 of the State fuel taxes to be used specifically for paths and trails reserves.

The **Drug Enforcement Fund** accounts for monies and property seized during drug investigations per RCW 69.50.505. All monies paid into the funds are to be used by the police department for drug enforcement purposes.

The **Transient Occupancy Fund** accounts for the City's share of the hotel-motel taxes for the purpose of promoting tourism.

The **Police Restricted Fund** accounts for various revenues to be used specifically for criminal justice activities.

Debt Service Funds

Debt Service Funds account for the accumulation of resources for and the payment of general obligation and special assessment bonds.

The **Miscellaneous Governmental Debt** was created in 2003 to account for the revenue and debt expenditures associated with miscellaneous governmental debt. Beginning in 2003 the Public Works Trust Fund Loans will be accounted for in this fund. Previously the Public Works Trust Fund loan was accounted for in Fund 204 – Non-Voted General Obligation Debt.

The **Non-Voted General Obligation Debt** accounts for the debt service on Council approved general obligation debt. Currently this includes two bond issues and the postage machine lease.

Capital Projects Funds

Capital Projects Funds account for the acquisition or construction of capital facilities (except for those financed primarily by proprietary funds). These funds are financed primarily by general obligation bonds, special assessments, federal and state grants and contributions from other funds. Budget-to-Actual for the one *major* capital project funds is also presented here. The fund name is *italicized* for identification purposes.

The **Equipment Acquisition Fund** was established to account for money used to replace existing capital equipment. Funding for the purchases is from a percentage of sales tax revenues.

The **Park Reserve Fund** was established to account for money used for improvements to the City parks and the urban forestry program. Funding is from a transfer from the General Fund.

The **Park Acquisition Fund** was established to account for park mitigation fees paid by developers.

The **Cemetery Reserve Fund** was established to account for money collected from gravesite sales used to make improvements to the City cemetery.

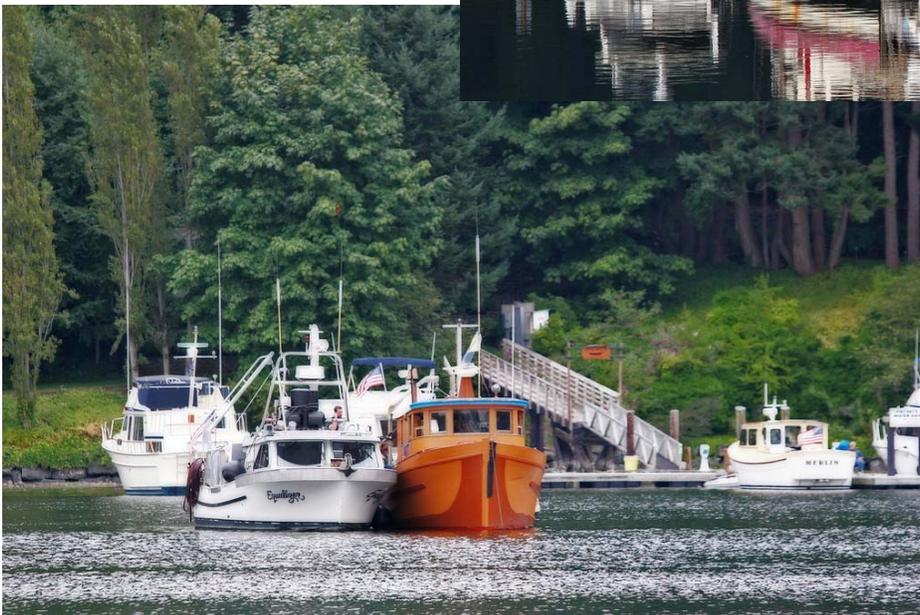
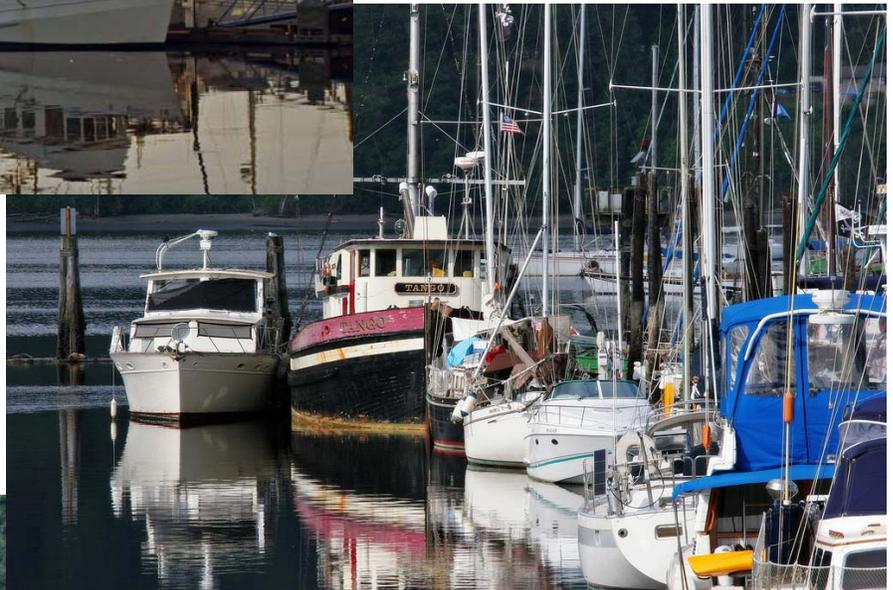
The **Street Equipment Reserve Fund** was established to build reserves for the purchase of street equipment.

The **Facilities Fund** was established to fund capital improvements to the City facilities.

Permanent Fund

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

The **Bernice Borgen Beautification Fund** is used to account for principal trust amounts received from Bernice Borgen estate and related interest income. The interest portion of the trust can be used for the beautification of the City.



**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011
Page 1 of 4**

	Special Revenue				
	City Streets	Capital Improvements	Cumulative Reserve	Historic Downtown Poulso Association	Paths and Trails
Assets					
Cash and Cash Equivalents	\$ 30,618	\$ 27	\$ 327	\$ 34	\$ 964
Investments	461,921	7,634	199,817	63,425	9,623
Receivables:					
Taxes	-	30,456	-	-	-
Accounts	-	-	-	-	-
Special Assesments	-	-	-	14,720	-
Due from Other Governments	-	-	-	-	-
Cash and Investments-Restricted	-	-	-	-	-
Total Assets	492,539	38,118	200,145	78,179	10,587
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	29,508	-	-	2,694	-
Custodial Accounts	-	-	-	-	-
Deferred Revenue	-	-	-	11,727	-
Total Liabilities	29,508	-	-	14,421	-
Fund Balances					
Nonspendable fund balance	-	-	-	-	-
Restricted fund balance	-	38,118	200,145	63,758	10,587
Assigned fund balance	463,030	-	-	-	-
Total Fund Balance	463,030	38,118	200,145	63,758	10,587
Total Liabilities and Fund Balances	\$ 492,539	\$ 38,118	\$ 200,145	\$ 78,179	\$ 10,587

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (continued)
DECEMBER 31, 2011
Page 2 of 4**

Special Revenue				Debt Service			
Drug Enforcement	Transient Occupancy	Police Restricted Funds	Total Non-Major Special Revenue Funds	Misc Governmental Debt	Non-Voted Debt	G.O.	Total Non-Major Debt Service Funds
\$ 5	\$ 2,304	\$ 2,482	\$ 36,762	\$ 30	\$ 4	\$ 33	
24,625	48,989	200,517	1,016,550	3,148	9,765	12,912	
-	-	-	30,456	-	-	-	
-	-	-	-	-	-	-	
-	-	-	14,720	-	-	-	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
24,630	51,292	202,999	1,098,488	3,177	9,769	12,946	
-	12,149	28,512	72,864	-	-	-	
-	-	-	-	-	-	-	
-	-	-	11,727	-	-	-	
-	12,149	28,512	84,591	-	-	-	
-	-	-	-	-	-	-	
24,630	39,143	137,127	513,507	3,177	9,769	12,946	
-	-	37,360	500,390	-	-	-	
24,630	39,143	174,487	1,013,897	3,177	9,769	12,946	
\$ 24,630	\$ 51,292	\$ 202,999	\$ 1,098,488	\$ 3,177	\$ 9,769	\$ 12,946	

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (continued)
December 31, 2011
Page 3 of 4

	Capital Project			
	Equipment Acquisition	Park Reserve	Park Acquisition	Cemetery Reserve
Assets				
Cash and Cash Equivalents	\$ 46	\$ 7,580	\$ -	\$ -
Investments	384,829	189,297	82,754	59,123
Receivables:				
Taxes	-	-	-	-
Accounts	-	-	-	-
Special Assesments	-	-	-	-
Due from Other Governments	-	7,970	-	-
Cash and Investments-Restricted	-	-	-	-
Total Assets	384,875	204,847	82,754	59,123
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	-	560	-	-
Custodial Accounts	-	-	-	-
Deferred Revenue	-	-	-	-
Total Liabilities	-	560	-	-
Fund Balances				
Nonspendable fund balance	-	-	-	-
Restricted fund balance	-	-	82,754	-
Assigned fund balance	384,875	204,287	-	59,123
Total Fund Balance	384,875	204,287	82,754	59,123
Total Liabilities and Fund Balances	\$ 384,875	\$ 204,847	\$ 82,754	\$ 59,123

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (continued)
December 31, 2011
Page 4 of 4

Capital Project			Permanent	
Street Equipment Reserve	Facilities Fund	Total Non-Major Capital Project Funds	Bernice Borgen Beautification	Total Non-Major Governmental Funds
\$ 12	\$ 31,227	\$ 38,865	\$ 5	\$ 75,664
241,247	154,004	1,111,254	-	2,140,716
-	-	-	-	-
-	-	-	-	30,456
-	-	-	-	-
-	-	-	-	14,720
-	-	7,970	-	7,970
-	-	-	124,316	124,316
241,258	185,231	1,158,088	124,321	2,393,843
-	42,912	43,472	-	116,336
-	-	-	-	-
-	-	-	-	11,727
-	42,912	43,472	-	128,063
-	-	-	91,016	91,016
-	-	82,754	33,305	642,511
241,258	142,319	1,031,862	-	1,532,253
241,258	142,319	1,114,616	124,321	2,265,780
\$ 241,258	\$ 185,231	\$ 1,158,088	\$ 124,321	\$ 2,393,843

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR YEAR ENDED DECEMBER 31, 2011
Page 1 of 4**

	Special Revenue				
	City Streets	Capital Improvements	Cumulative Reserve	Historic Downtown Poulsbo Association	Paths and Trails
Revenues					
Taxes	\$ -	\$ 271,370	\$ -	\$ -	\$ -
Licenses and Permits	9,225	-	-	-	-
Intergovernmental	192,777	-	-	-	-
Charges for Services	-	-	166,526	-	-
Fines and Forfeitures	-	-	-	-	-
Interest and Other Earnings	563	312	229	356	13
Miscellaneous	-	-	-	53,255	-
Total Revenues	202,566	271,682	166,755	53,611	13
Expenditures					
Current:					
General Government	-	-	-	-	-
Security of Persons & Property	-	-	-	-	-
Utilities and Environment	-	-	-	-	-
Transportation	740,214	-	-	-	-
Economic Environment	-	-	-	-	-
Mental and Physical Health	-	-	-	-	-
Culture and Recreation	-	-	-	46,520	-
Debt Service:					
Principal	-	-	-	-	-
Interest & Fiscal Charges	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Total Expenditures	740,214	-	-	46,520	-
Excess of Revenues over Expenditures	(537,648)	271,682	166,755	7,091	13
Other Financing Sources (Uses)					
Transfers In	767,060	-	-	-	964
Transfers Out	(135,117)	(297,725)	(50,000)	-	-
Disposal of Capital Assets	-	-	-	-	-
Governmental Obligation Bond Proceeds	-	-	-	-	-
Proceeds of Other Long Term Debt	-	-	-	-	-
Compensation for Impairment of Capital Assets	-	-	-	-	-
Total Other Financing Sources and Uses	631,944	(297,725)	(50,000)	-	964
Net Change in Fund Balances	94,295	(26,042)	116,755	7,091	977
Fund Balances - Beginning	368,735	64,160	83,390	56,667	9,610
Prior Year Adjustment	-	-	-	-	-
Fund Balances - Ending	\$ 463,030	\$ 38,118	\$ 200,145	\$ 63,758	\$ 10,587

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (continued)
FOR YEAR ENDED DECEMBER 31, 2011**

Page 2 of 4

Special Revenue				Debt Service		
Drug Enforcement	Transient Occupancy	Police Restricted Funds	Total Non-Major Special Revenue Funds	Misc Governmental Debt	Non-Voted G.O. Debt	Total Non-Major Debt Service Funds
\$ -	\$ 89,280	\$ 105,624	\$ 466,274	\$ -	\$ -	\$ -
-	-	-	9,225	-	-	-
-	-	9,713	202,491	-	-	-
-	-	-	166,526	-	-	-
-	-	-	-	-	-	-
34	47	646	2,201	20	426	445
541	-	21,721	75,517	-	-	-
574	89,327	137,704	922,233	20	426	445
-	-	-	-	-	-	-
-	-	33,282	33,282	-	-	-
-	-	-	-	-	-	-
-	-	-	740,214	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	82,636	-	129,156	-	-	-
-	-	-	-	74,368	560,000	634,368
-	-	-	-	22,310	470,861	493,171
-	-	50,059	50,059	-	-	-
-	82,636	83,341	952,711	96,679	1,030,861	1,127,540
574	6,691	54,363	(30,478)	(96,659)	(1,030,435)	(1,127,094)
-	-	-	768,024	98,650	971,379	1,070,029
-	-	(108,066)	(590,908)	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	(108,066)	177,117	98,650	971,379	1,070,029
574	6,691	(53,703)	146,639	1,991	(59,056)	(57,065)
24,055	32,452	228,190	867,258	1,186	69,854	71,041
-	-	-	-	-	(1,029)	(1,029)
\$ 24,630	\$ 39,143	\$ 174,487	\$ 1,013,897	\$ 3,177	\$ 9,769	\$ 12,946

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (continued)
FOR YEAR ENDED DECEMBER 31, 2011
 Page 3 of 4

	Capital Project				
	Equipment Acquisition	Park Reserve	Park Acquisition	Cemetery Reserve	Street Equipment Reserve
Revenues					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-	-
Intergovernmental	-	340,960	-	-	-
Charges for Services	-	-	37,500	1,600	-
Fines and Forfeitures	-	-	-	-	-
Interest and Other Earnings	1,983	781	119	80	856
Miscellaneous	-	850	-	-	-
Total Revenues	1,983	342,591	37,619	1,680	856
Expenditures					
Current:					
General Government	-	-	-	-	-
Security of Persons & Property	-	-	-	-	-
Utilities and Environment	-	-	-	-	-
Transportation	-	-	-	-	-
Economic Environment	-	-	-	-	-
Mental and Physical Health	-	-	-	-	-
Culture and Recreation	-	4,800	-	-	-
Debt Service:					
Principal	-	-	-	-	-
Interest & Fiscal Charges	-	-	-	-	-
Capital Outlay	12,347	360,238	-	-	-
Total Expenditures	12,347	365,038	-	-	-
Excess of Revenues over Expenditures	(10,364)	(22,447)	37,619	1,680	856
Other Financing Sources (Uses)					
Transfers In	31,500	39,907	-	-	-
Transfers Out	(42,320)	-	(25,000)	-	-
Disposal of Capital Assets	-	-	-	-	-
Governmental Obligation Bond Proceeds	-	-	-	-	-
Proceeds of Other Long Term Debt	-	-	-	-	-
Compensation for Impairment of Capital Assets	-	-	-	-	-
Total Other Financing Sources and Uses	(10,820)	39,907	(25,000)	-	-
Net Change in Fund Balances	(21,184)	17,460	12,619	1,680	856
Fund Balances - Beginning	406,059	186,827	70,135	57,444	240,402
Prior Year Adjustment	-	-	-	-	-
Fund Balances - Ending	\$ 384,875	\$ 204,287	\$ 82,754	\$ 59,123	\$ 241,258

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (continued)
FOR YEAR ENDED DECEMBER 31, 2011**

Page 4 of 4

<u>Capital Project</u>		<u>Permanent</u>	
<u>Facilities Fund</u>	<u>Total Non-Major Capital Project Funds</u>	<u>Bernice Borgen Beautification</u>	<u>Total Non-Major Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 466,274
-	-	-	9,225
-	340,960	-	543,450
-	39,100	-	205,626
-	-	-	-
141	3,961	539	7,146
-	850	-	76,367
141	384,871	539	1,308,088
-	-	-	-
-	-	-	33,282
-	-	-	-
-	-	-	740,214
-	-	-	-
-	-	-	-
-	4,800	-	133,956
-	-	-	-
-	-	-	634,368
-	-	-	493,171
889,495	1,262,080	-	1,312,140
889,495	1,266,880	-	3,347,131
(889,354)	(882,010)	539	(2,039,043)
-	71,407	-	1,909,460
-	(67,320)	-	(658,228)
-	-	-	-
-	-	-	-
625,000	625,000	-	625,000
268,399	268,399	-	268,399
893,399	897,486	-	2,144,631
4,045	15,476	539	105,588
138,274	1,099,140	123,782	2,161,222
-	-	-	(1,029)
\$ 142,319	\$ 1,114,616	\$ 124,321	\$ 2,265,781

CITY STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenue			
License and Permits	\$ 3,000	\$ 9,225	\$ 6,225
Intergovernmental	191,245	192,777	1,532
Interest and Other Earnings	-	563	563
Miscellaneous	-	-	-
Total Revenues	194,245	202,566	8,321
Expenditures			
Transportation:			
Street Maintenance	848,061	740,214	107,848
Total Expenditures	848,061	740,214	107,848
Excess of Revenues Under Expenditures	(653,816)	(537,648)	116,168
Other Financing Sources (Uses)			
Transfers in	781,355	767,060	(14,295)
Transfers out	(173,645)	(135,117)	38,528
Total Other Financing Sources (Uses)	607,710	631,944	24,234
Net Change in Fund Balance	(46,106)	94,295	140,402
Fund Balance Beginning of Year	368,735	368,735	(1)
Fund Balance End of Year	\$ 322,629	\$ 463,030	\$ 140,401

CAPITAL IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Taxes:			
Excise Tax	\$ 276,000	\$ 271,370	\$ (4,630)
Interest and Other Earnings	400	312	(88)
Total Revenues	276,400	271,682	(4,718)
Expenditures			
Current:			
Miscellaneous	-	-	-
Total Expenditures	-	-	-
Excess of Revenues Over Expenditures	276,400	271,682	(4,718)
Other Financing Sources (Uses)			
Transfers out	(308,000)	(297,725)	10,275
Total Other Financing Sources (Uses)	(308,000)	(297,725)	10,275
Net Change in Fund Balance	(31,600)	(26,042)	5,558
Fund Balance Beginning of Year	64,160	64,160	-
Fund Balance End of Year	\$ 32,560	\$ 38,118	\$ 5,558

**CUMULATIVE RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Transportation Impact Fees	\$ -	\$ 166,526	\$ 166,526
Interest and Other Earnings	400	229	(171)
Total Revenues	400	166,755	166,355
Expenditures			
Current:			
Miscellaneous	-	-	-
Total Expenditures	-	-	-
Excess of Revenues Over Expenditures	400	166,755	166,355
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	(50,000)	(50,000)	-
Total Other Financing Sources (Uses)	(50,000)	(50,000)	-
Net Change in Fund Balance	(49,600)	116,755	166,355
Fund Balance Beginning of Year	83,390	83,390	(0)
Fund Balance End of Year	\$ 33,790	\$ 200,145	\$ 166,355

HISTORIC DOWNTOWN POULSBO ASSOCIATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Special Assessments	\$ 42,000	\$ 45,114	\$ 3,114
Gifts and Pledges	5,750	8,141	2,391
Interest and Other Earnings	-	356	356
Miscellaneous	-	-	-
Total Revenues	47,750	53,611	5,861
Expenditures			
Bad Debt Expense	-	340	(340)
Office & Operating Supplies	1,000	217	783
Small Tools & Minor Equipment	20,000	17,611	2,389
Professional Services	9,000	5,700	3,300
Communication	1,500	862	638
Postage	-	38	(38)
Advertising	10,000	9,066	934
Insurance	800	1,549	(749)
Repairs and Maintenance	13,000	10,072	2,928
Miscellaneous	500	1,066	(566)
Total Expenditures	55,800	46,520	9,280
Excess of Revenues Over Expenditures	(8,050)	7,091	15,141
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balance	(8,050)	7,091	15,141
Fund Balance Beginning of Year	56,667	56,667	-
Fund Balance End of Year	\$ 48,617	\$ 63,758	\$ 15,141

**PATH AND TRAILS RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Interest and Other Earnings	\$ -	\$ 13	\$ 13
Miscellaneous	-	-	-
Total Revenues	-	13	13
Expenditures			
Current:			
Miscellaneous	-	-	-
Total Expenditures	-	-	-
Excess of Revenues Over Expenditures	-	13	13
Other Financing Sources (Uses)			
Transfers in	956	964	8
Transfers out	-	-	-
Total Other Financing Sources (Uses)	956	964	8
Net Change in Fund Balance	956	977	21
Fund Balance Beginning of Year	9,609	9,610	1
Fund Balance End of Year	\$ 10,565	\$ 10,587	\$ 22

DRUG ENFORCEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Kitsap County -Westnet Grant	\$ -	\$ -	\$ -
Interest and Other Earnings	50	34	(16)
Miscellaneous	-	541	541
Total Revenues	50	574	524
Expenditures			
Current:			
LIBNET Program	5,980	-	5,980
Drug Enforcement Agency	-	-	-
Total Expenditures	5,980	-	5,980
Excess of Revenues Over Expenditures	(5,930)	574	6,504
Other Financing Sources (Uses)			
Disposal of Capital Assets	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balance	(5,930)	574	6,504
Fund Balance Beginning of Year	24,055	24,055	0
Fund Balance End of Year	\$ 18,125	\$ 24,630	\$ 6,505

TRANSIENT OCCUPANCY TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Hotel/Motel Tax	\$ 45,000	\$ 44,640	\$ (360)
Additional 2% Hotel/Motel Tax	45,000	44,640	(360)
Interest and Other Earnings	-	47	47
Total Revenues	90,000	89,327	(673)
Expenditures			
Economic Environment:			
Spectator and Community Events:			
Administration	43,000	36,079	6,921
Special Events	47,000	46,557	443
Miscellaneous	-	-	-
Total Expenditures	90,000	82,636	7,364
Excess of Revenues Over Expenditures	-	6,691	6,691
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balance	-	6,691	6,691
Fund Balance Beginning of Year	32,452	32,452	-
Fund Balance End of Year	\$ 32,452	\$ 39,143	\$ 6,691

POLICE RESTRICTED FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Sales Tax	\$ 85,000	\$ 105,624	\$ 20,624
Suquamish Indian Tribe Mitigation	16,500	16,500	-
Vessel Registration	9,100	-	(9,100)
Criminal Justice	7,225	9,713	2,488
Interest and Other Earnings	200	646	446
Miscellaneous	200	5,221	5,021
Total Revenues	118,225	137,704	19,479
Expenditures			
Security of Persons & Property	59,916	33,282	26,634
Capital Outlay	70,829	50,059	20,770
Total Expenditures	130,745	83,341	47,404
Excess of Revenues Over Expenditures	(12,520)	54,363	66,883
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	(108,066)	(108,066)	0
Total Other Financing Sources (Uses)	(108,066)	(108,066)	(0)
Net Change in Fund Balance	(120,586)	(53,703)	66,883
Fund Balance Beginning of Year	228,191	228,190	(1)
Fund Balance End of Year	\$ 107,605	\$ 174,487	\$ 66,882

**MISCELLANEOUS GOVERNMENTAL DEBT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Interest and Other Earnings	\$ -	\$ 20	\$ 20
Total Revenues	-	20	20
Expenditures			
Debt Service:			
Intergovernmental Loan-Principal	74,368	74,368	-
Interest and Related Costs	22,311	22,310	1
Total Expenditures	96,679	96,679	1
Excess of Revenues Over Expenditures	(96,679)	(96,659)	20
Other Financing Sources (Uses)			
Transfers in	98,650	98,650	0
Transfers out	-	-	-
Total Other Financing Sources (Uses)	98,650	98,650	0
Net Change in Fund Balance	1,971	1,991	20
Fund Balance Beginning of Year	1,186	1,186	-
Fund Balance End of Year	\$ 3,157	\$ 3,177	\$ 20

NON-VOTED GENERAL OBLIGATION DEBT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Interest and Other Earnings	\$ -	\$ 426	\$ 426
Rentals & Leases	-	-	-
Total Revenues	-	426	426
Expenditures			
Debt Service:			
General Obligation Bond-Principal	560,000	560,000	-
Interest and Related Costs	516,754	470,861	45,893
Total Expenditures	1,076,754	1,030,861	45,893
Excess of Revenues Over Expenditures	(1,076,754)	(1,030,435)	46,319
Other Financing Sources (Uses)			
Transfers in	1,018,379	971,379	(47,000)
Transfers out	-	-	-
Governmental Obligation Bond Proceeds	-	-	-
Total Other Financing Sources (Uses)	1,018,379	971,379	(47,000)
Net Change in Fund Balance	(58,375)	(59,056)	(681)
Fund Balance Beginning of Year	69,853	69,854	1
Prior Year Adjustment	-	(1,029)	(1,029)
Fund Balance End of Year	\$ 11,478	\$ 9,769	\$ (1,709)

EQUIPMENT ACQUISITION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Interest and Other Earnings	\$ -	\$ 1,983	\$ 1,983
Total Revenues	-	1,983	1,983
Expenditures			
Small Tools and Minor Equipment:			
General Government	-	-	-
Security of Persons & Property	-	-	-
Utilities and Environment	-	-	-
Economic Environment	-	-	-
Culture and Recreation	-	-	-
Capital Outlay	254,173	12,347	241,826
Total Expenditures	254,173	12,347	241,826
Excess of Revenues Over Expenditures	(254,173)	(10,364)	243,809
Other Financing Sources (Uses)			
Transfers in	31,500	31,500	-
Transfers out	(42,320)	(42,320)	-
Total Other Financing Sources (Uses)	(10,820)	(10,820)	-
Net Change in Fund Balance	(264,993)	(21,184)	243,809
Fund Balance Beginning of Year	406,059	406,059	(0)
Fund Balance End of Year	\$ 141,066	\$ 384,875	\$ 243,809

PARK RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Intergovernmental:			
IAC - Outdoor Rec (ADP)	\$ 45,000	\$ -	\$ (45,000)
RCO - (IAC) ALEA Grant	335,548	340,960	5,412
Gifts and Pledges	500	850	350
Interest and Other Earnings	-	781	781
Rental and Lease	-	-	-
Total Revenues	381,048	342,591	(38,457)
Expenditures			
Current:			
Natural Resources	-	-	-
Administration	19,800	4,800	15,000
Capital Outlay:			
American Legion Park Paths	20,000	-	20,000
Fish Park	364,799	347,571	17,228
Parks Equipment	-	9,172	(9,172)
Parks & Rec Ctr Building	-	-	-
Settle Property	3,070	3,069	1
Trail Plan	65,690	426	65,264
Total Expenditures	473,359	365,038	108,321
Excess of Revenues Over Expenditures	(92,311)	(22,447)	69,864
Other Financing Sources (Uses)			
Transfers in	71,287	39,907	(31,380)
Transfers out	(10,100)	-	(10,100)
Total Other Financing Sources (Uses)	61,187	39,907	(21,280)
Net Change in Fund Balance	(31,124)	17,459	48,583
Fund Balance Beginning of Year	166,827	186,827	20,000
Prior Year Adjustment			-
Fund Balance End of Year	\$ 135,703	\$ 204,287	\$ 68,584

STREET RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Indirect Federal Grants	\$ 1,676,746	\$ 918,688	\$ (758,058)
State Dept of Ecology Grant	250,000	20,397	(229,603)
State Dept of Transportation Grant	-	-	-
CTED Grant	399,716	60,152	(339,564)
North Kitsap School District	-	-	-
Interest and Other Earnings	-	944	944
Total Revenues	2,326,462	1,000,180	(1,326,282)
Expenditures			
Current:			
3rd Avenue - Moe to Jensen	-	41	(41)
3rd Avenue - Moe to Iverson	72,160	32,812	39,348
3rd Avenue - Moe to Hostmark	30,000	-	30,000
4th Avenue - Pavement Restoration	12,850	12,850	
4th Avenue - Speed Tables	10,000	826	9,174
6th Avenue - Traffic Safety Improvements	300,284	28,284	272,000
Fjord Drive	591,200	323,770	267,430
Hostmark Sidewalk	30,000	6,232	23,768
Liberty Bay Waterfront Trail	95,000	11,264	83,736
Lincoln Road	45,664	44,450	1,214
Noll Road	802,943	781,857	21,086
Traffic Impact Fee Study	6,000	-	6,000
Viking Avenue - North	5,000	2,347	2,653
Viking Avenue - South	426,584	105,331	321,253
Total Expenditures	2,427,685	1,350,064	1,077,621
Excess of Revenues Over Expenditures	(101,223)	(349,884)	(248,661)
Other Financing Sources (Uses)			
Proceeds From Sale of Capital Assets	-	-	-
Transfers in	321,029	259,273	(61,756)
Transfers out	(9,500)	(9,500)	-
Total Other Financing Sources (Uses)	311,529	249,773	(61,756)
Net Change in Fund Balance	210,306	(100,111)	(310,417)
Fund Balance Beginning of Year	766,141	766,141	(0)
Prior Year Adjustment	-	-	-
Fund Balance End of Year	\$ 976,447	\$ 666,030	\$ (310,417)

PARK ACQUISITION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Park Mitigation	\$ -	\$ 37,500	\$ 37,500
Interest and Other Earnings	-	119	119
Miscellaneous	-	-	
Total Revenues	-	37,619	37,619
Expenditures			
Current:			
General Government	-	-	-
Total Expenditures	-	-	-
Excess of Revenues Over Expenditures	-	37,619	37,619
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	(25,000)	(25,000)	-
Total Other Financing Sources (Uses)	(25,000)	(25,000)	-
Net Change in Fund Balance	(25,000)	12,619	37,619
Fund Balance Beginning of Year	70,135	70,135	-
Fund Balance End of Year	\$ 45,135	\$ 82,754	\$ 37,619

CEMETERY RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Gravesites	\$ 1,000	\$ 1,600	\$ 600
Interest and Other Earnings	-	80	80
Miscellaneous	-	-	-
Total Revenues	1,000	1,680	680
Expenditures			
Current:			
General Government	-	-	-
Total Expenditures	-	-	-
Excess of Revenues Over Expenditures	1,000	1,680	680
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balance	1,000	1,680	680
Fund Balance Beginning of Year	57,444	57,444	-
Fund Balance End of Year	\$ 58,444	\$ 59,123	\$ 679

CITY STREET EQUIPMENT RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Interest and Other Earnings	\$ 500	\$ 856	\$ 356
Miscellaneous	-	-	-
Total Revenues	500	856	356
Expenditures			
Capital Outlay	-	-	-
Total Expenditures	-	-	-
Excess of Revenues Over Expenditures	500	856	356
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balance	500	856	356
Fund Balance Beginning of Year	240,402	240,402	-
Fund Balance End of Year	\$ 240,902	\$ 241,258	\$ 356

FACILITIES FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Interest and Other Earnings	\$ 200	\$ 141	\$ (59)
Miscellaneous	7,500	-	(7,500)
Total Revenues	7,700	141	(7,559)
Expenditures			
Capital Outlay:			
Marine Science Center	283,399	277,147	6,252
Municipal Campus Project	1,111,887	606,348	505,539
Park & Recreation Building	10,100	6,000	4,100
Total Expenditures	1,405,386	889,495	515,891
Excess of Revenues Over Expenditures	(1,397,686)	(889,354)	508,332
Other Financing Sources (Uses)			
Transfers in	10,100	-	(10,100)
Transfers out	(47,000)	-	47,000
Disposal of Capital Assets	252,062	-	(252,062)
Governmental Obligation Bond Proceeds	-	-	-
Proceeds of Other Long Term Debt	800,000	625,000	(175,000)
Compensation for Impairment of Capital Assets	268,399	268,399	(0)
Total Other Financing Sources (Uses)	1,283,561	893,399	(390,162)
Net Change in Fund Balance	(114,125)	4,045	118,170
Fund Balance Beginning of Year	138,274	138,274	-
Fund Balance End of Year	\$ 24,149	\$ 142,319	\$ 118,170

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to another department or agency of the City on a cost reimbursement basis.

The **General Facilities Fund** accounts for the cost of maintaining all City vehicles and construction equipment. All costs, including depreciation, are included in establishing the rate to be charged to each department.

The **Public Works Administration Fund** accounts for administration support to the City's Streets, Water/Sewer, Solid Waste, Storm Drain, and General Facilities Departments.

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
DECEMBER 31, 2011

	Business-type Activities		
	General Facilities	Public Works Admin	Total
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 14,197	\$ 18,621	\$ 32,818
Investments	46,259	150,809	197,068
Accounts Receivable	-	361	361
Inventories	456	-	456
Total Current Assets	60,912	169,791	230,703
Noncurrent assets:			
Investments	-	-	-
Capital Assets:			
Land	-	6,590	6,590
Building and Structures	-	-	-
Machinery and Equipment	9,000	46,313	55,313
Construction in Progress	-	-	-
Intangibles	-	43,582	43,582
Other Improvements	-	32,424	32,424
Less: Accumulated Depreciation	(9,000)	(78,583)	(87,583)
Total Noncurrent Assets	-	50,325	50,325
Total Assets	60,912	220,116	281,028
Liabilities			
Current Liabilities:			
Accounts Payable	3,987	17,661	21,649
Total Current Liabilities	3,987	17,661	21,649
Non Current Liabilities:			
Compensated Absences	15,680	68,654	84,333
Total Non Current Liabilites	15,680	68,654	84,333
Total Liabilities	19,667	86,315	105,982
Net Position			
Invested in capital assets	-	50,325	50,325
Unrestricted	41,245	83,476	124,721
Total Net Position	\$ 41,245	\$ 133,801	\$ 175,046

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities		
	General Facilities	Public Works Admin	Total
Operating Revenues:			
Charges for Services	\$ 172,165	\$ 1,020,619	\$ 1,192,783
Miscellaneous	98	7,432	7,530
Total operating revenues	172,263	1,028,051	1,200,314
Operating Expenses:			
Administrative and General	71,864	1,028,711	1,100,574
Depreciation	-	12,517	12,517
Operating	111,292	-	111,292
Total Operating Expenses	183,156	1,041,227	1,224,383
Operating Income (loss)	(10,893)	(13,177)	(24,069)
Nonoperating Revenues (Expenses):			
Interest and Other Earnings	70	266	336
Gain (loss) on Dispositon of Cap. Assets	-	-	-
Other Nonoperating Expense	-	-	-
Transfer In	-	-	-
Transfer Out	-	-	-
Total Nonoperating Revenue (Expenses)	70	266	336
Change in Net Position	(10,823)	(12,910)	(23,733)
Total Net Position Beginning of Year	52,068	146,712	198,780
Prior Year Adjustments	-	-	-
Total Net Position End of Year	\$ 41,245	\$ 133,801	\$ 175,046

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Business-type Activities		
	General Facilities	Public Works Admin	Total
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 172,263	\$ 1,028,222	\$ 1,200,485
Payments to suppliers for goods and services	(97,707)	(685,712)	(783,419)
Payments to employees	(84,779)	(378,057)	(462,836)
Net cash provided (used) by operating activities	(10,223)	(35,547)	(45,770)
Cash Flows From Noncapital Financing Activities			
Operating Transfer-In (out)	-	-	-
Net cash provided (used) by noncapital and related financing activities	-	-	-
Cash Flows from Capital and Related Financing Activities			
Proceeds from sale of assets	-	-	-
Purchase of capital assets	-	-	-
Acquisition and construction of capital assets	-	-	-
Net Cash provided (used) by capital and related financing activities	-	-	-
Cash Flows from Investing Activities			
Proceeds from sales and maturities of investments	40,550	85,200	125,750
Purchase of investments	(23,092)	(38,715)	(61,806)
Interest and dividends received	70	266	336
Net cash used by investing activities	17,528	46,752	64,280
Net increase in cash and cash equivalents	7,305	11,205	18,510
Cash and cash equivalents Beginning of Year	6,892	7,416	14,308
Cash and cash equivalents End of Year	14,197	18,621	32,818
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating Income	(10,893)	(13,177)	(24,069)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	-	12,517	12,517
(Increase) decrease in accounts receivable	-	171	171
(Increase) decrease in inventories	22	-	22
Increase (decrease) in accounts payable	(756)	(33,949)	(34,705)
Increase(decrease) in comp. absences payable	1,404	(1,109)	295
Total Adjustments	670	(22,370)	(21,700)
Net Cash Provided By Operating Activities	\$ (10,223)	\$ (35,547)	\$ (45,770)

FIDUCIARY FUNDS

Fiduciary Funds are used to account for assets held by a by a government in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

The Agency Fund accounts for assets held in an agency capacity for others. All assets reported in agency funds are offset by a liability to another party on whose behalf they are being held.

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	1/1/11 Balance	Additions	Deletions	12/31/11 Balance
Assets				
Cash and cash equivalents	\$ 44,275	\$ 143,866	\$ 147,408	\$ 40,733
Accounts Receivable	4,160	83,625	81,825	5,960
Investments	22,494	542	-	23,036
Total Assets	70,929	228,032	229,232	69,729
Liabilities				
Retainage Payable	\$ 41,309	\$ 179,839	\$ 181,936	\$ 39,212
Custodial funds	29,620	118,261	117,365	30,516
Total Liabilities	70,929	298,100	299,301	69,729
Net Assets	\$ -			\$ -

STATISTICAL SECTION

This part of the City of Poulsbo's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information say about the government's overall financial health. This information is unaudited.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue sources, property tax and sales tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

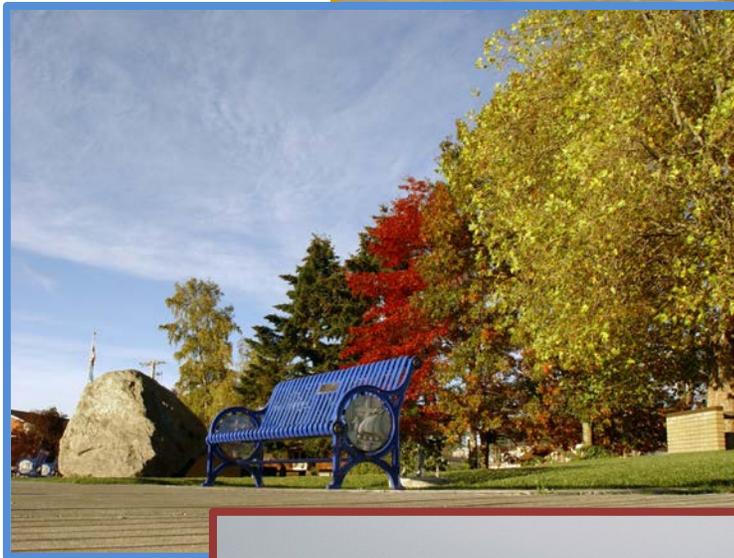
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

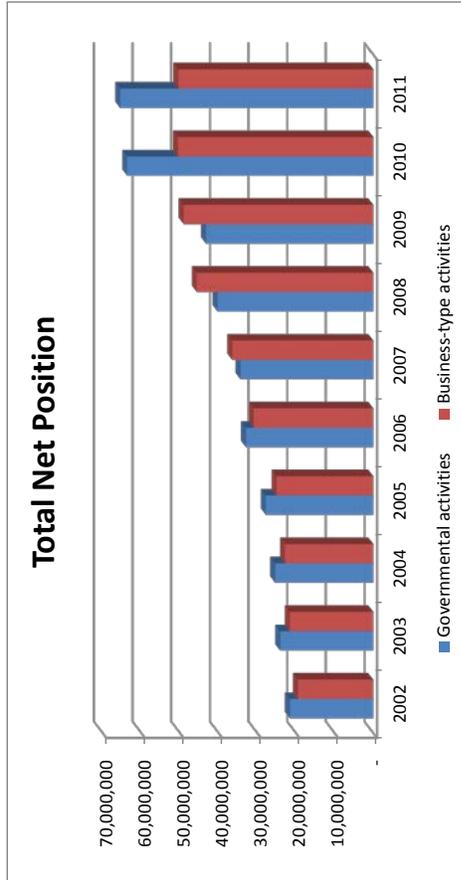
Data Sources:

Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.



NET POSITION BY COMPONENT
Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities										
Invested in capital assets, net of related debt	\$ 15,703,725	\$ 16,780,634	\$ 18,857,715	\$ 14,526,547	\$ 21,314,960	\$ 22,927,641	\$ 32,758,461	\$ 35,548,551	\$ 58,447,929	\$ 60,292,177
Restricted	295,090	293,256	287,739	866,364	974,441	946,843	683,649	643,717	602,068	733,527
Unrestricted	5,535,830	6,992,026	6,221,541	12,367,678	10,640,044	10,460,327	6,831,365	7,074,512	4,587,722	4,449,433
Total governmental activities net position	\$ 21,534,645	\$ 24,065,915	\$ 25,366,996	\$ 27,760,589	\$ 32,929,444	\$ 34,334,811	\$ 40,273,475	\$ 43,266,780	\$ 63,637,719	\$ 65,475,137
Business-type activities										
Invested in capital assets, net of related debt	\$ 15,991,448	\$ 16,641,475	\$ 16,903,395	\$ 17,250,848	\$ 25,702,744	\$ 25,907,276	\$ 35,806,531	\$ 38,376,953	\$ 38,276,261	\$ 37,042,937
Restricted	595,500	595,000	-	496,499	623,042	491,489	492,011	492,011	434,587	492,011
Unrestricted	2,883,550	4,306,333	5,916,001	7,258,373	4,526,032	10,062,161	9,313,622	10,139,706	11,822,918	12,880,492
Total business-type activities net position	\$ 19,470,497	\$ 21,542,808	\$ 22,819,397	\$ 25,005,720	\$ 30,851,818	\$ 36,460,925	\$ 45,612,163	\$ 49,008,669	\$ 50,533,766	\$ 50,415,439
Primary government										
Invested in capital assets, net of related debt	\$ 31,695,173	\$ 33,422,109	\$ 35,761,110	\$ 31,777,395	\$ 47,017,703	\$ 48,834,917	\$ 68,564,992	\$ 73,925,503	\$ 96,724,190	\$ 97,335,114
Restricted	890,590	888,256	287,739	1,362,863	1,597,483	1,438,331	1,175,659	1,135,728	1,036,655	1,225,538
Unrestricted	8,419,379	11,298,359	12,137,543	19,626,051	15,166,076	20,522,488	16,144,986	17,214,218	16,410,640	17,329,924
Total primary government net position	\$ 41,005,142	\$ 45,608,724	\$ 48,186,392	\$ 52,766,309	\$ 63,781,263	\$ 70,795,736	\$ 85,885,638	\$ 92,275,449	\$ 114,171,485	\$ 115,890,576



CHANGES IN NET POSITION
Last Ten Fiscal Years

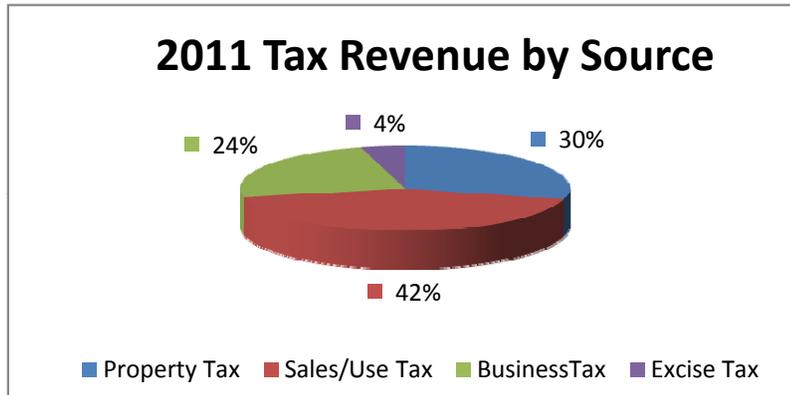
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses										
Governmental Activities:										
General Government	\$ 1,462,979	\$ 1,516,489	\$ 1,530,017	\$ 1,356,943	\$ 1,639,401	\$ 1,729,870	\$ 1,752,358	\$ 1,673,197	\$ 1,731,193	\$ 1,758,688
Judicial	317,756	265,053	260,744	257,550	272,248	303,106	338,206	363,204	372,227	347,030
Security of Persons & Property	1,954,963	1,983,035	1,939,609	2,112,042	2,194,372	2,432,958	2,485,650	2,735,396	2,733,363	2,631,619
Utilities & Environment	308,421	593,399	502,815	436,786	502,929	579,460	605,326	495,083	478,035	493,650
Transportation	758,662	930,344	1,086,014	1,069,701	1,105,132	3,303,834	3,473,777	1,590,515	1,731,695	1,685,655
Economic Environment	392,359	446,585	595,488	650,391	751,947	846,131	894,507	848,002	861,538	633,782
Mental & Physical Health	9,457	9,909	10,767	12,489	12,838	13,489	13,694	14,213	14,481	14,573
Culture & Recreation	1,071,479	1,142,670	1,196,036	1,273,809	1,381,978	1,820,165	2,067,109	1,501,571	1,509,164	1,468,720
Interest on Long-Term Debt	108,317	195,895	161,767	150,670	332,355	323,951	303,190	517,679	561,569	553,206
Total Governmental Activities Expenses	6,384,393	7,083,381	7,283,256	7,320,381	8,193,199	11,352,964	11,933,818	9,738,860	9,993,266	9,586,921
Business-Type Activities:										
Water ¹	1,961,788	2,070,725	2,096,780	2,195,301	870,959	1,017,582	928,153	1,109,257	1,094,734	1,199,529
Sewer	-	-	-	-	1,368,353	1,518,045	1,520,839	1,716,646	1,844,726	2,052,589
Solid Waste	1,200,968	936,477	870,166	807,384	945,221	1,158,976	961,512	999,853	999,164	1,161,445
Storm Drain	146,834	243,174	283,778	323,217	417,209	559,800	675,448	881,451	931,723	935,763
Total Business-Type Activities	3,309,590	3,250,377	3,250,724	3,325,902	3,601,742	4,254,402	4,085,952	4,707,206	4,870,347	5,349,326
Total Primary Government Expenses	\$ 9,693,982	\$ 10,333,757	\$ 10,533,980	\$ 10,646,283	\$ 11,794,941	\$ 15,607,366	\$ 16,019,770	\$ 14,446,066	\$ 14,863,613	\$ 14,936,247
Program Revenues										
Governmental Activities:										
Charges for services:										
General Government	\$ 171,951	\$ 246,939	\$ 198,872	\$ 224,133	\$ 230,890	\$ 259,258	\$ 268,307	\$ 269,871	\$ 266,497	\$ 540,342
Judicial	97,351	243,979	112,403	109,137	123,309	123,489	106,268	100,989	111,022	106,027
Security of Persons & Property	121,576	139,548	74,405	73,172	108,076	180,967	142,855	149,761	175,358	169,029
Utilities & Environment	37,788	135,636	123,440	144,532	186,395	147,659	58,143	41,545	43,703	51,162
Transportation	22,357	6,631	3,750	7,776	7,315	6,625	7,096	8,428	9,239	9,225
Economic Environment	329,635	339,070	385,157	580,137	667,550	1,111,693	508,805	529,054	332,333	281,722
Mental & Physical Health	-	-	-	-	-	-	-	-	-	-
Culture & Recreation	512,776	519,855	606,882	529,938	524,913	485,590	488,532	446,626	504,935	493,156
Interest on Long-Term Debt	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions	387,942	361,691	401,880	453,211	421,073	697,301	403,541	462,488	477,260	425,702
Capital grants and contributions	2,754,008	2,422,547	1,254,588	1,330,358	3,353,002	3,958,650	8,170,785	2,616,738	1,539,559	2,290,353
Total Governmental Activities Program Revenues	4,435,384	4,415,896	3,161,378	3,452,396	5,622,522	6,971,232	10,154,333	4,625,500	3,459,906	4,366,717

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Business-Type Activities:										
Charges for services:										
Water ¹	3,216,115	3,390,905	3,250,588	3,449,272	1,261,909	1,278,995	1,314,880	1,436,637	1,420,038	1,407,214
Sewer	-	-	-	-	1,845,779	1,903,284	1,988,486	2,388,293	2,526,708	2,558,143
Solid Waste	1,171,835	1,078,703	1,094,879	1,149,082	1,213,664	1,287,305	1,287,759	1,262,911	1,282,151	1,287,617
Storm Drain	474,779	538,291	549,545	602,950	655,959	708,002	701,872	732,023	732,782	738,081
Operating grants and contributions	-	-	-	-	-	-	56,428	53,270	57,555	94,789
Capital grants and contributions	2,456,114	537,062	494,143	-	4,476,680	4,372,821	7,612,412	3,180,784	221,116	312,382
Total Business-Type Activities Program Revenues	7,318,843	5,544,960	5,389,156	5,201,303	9,453,991	9,499,408	12,961,838	9,053,919	6,240,350	6,398,226
Revenues	\$ 11,754,227	\$ 9,960,856	\$ 8,550,534	\$ 8,653,699	\$ 15,076,513	\$ 16,470,639	\$ 23,116,170	\$ 13,679,418	\$ 9,700,256	\$ 10,764,942
Net (Expense)/Revenue										
Governmental Activities	\$ (1,949,009)	\$ (2,667,485)	\$ (4,121,878)	\$ (3,867,985)	\$ (2,570,677)	\$ (4,381,732)	\$ (1,779,485)	\$ (5,113,360)	\$ (6,533,359)	\$ (5,220,205)
Business-type activities	4,009,253	2,294,584	2,138,432	1,875,401	5,852,249	5,245,005	8,875,886	4,346,712	1,370,003	1,048,900
Total Primary Government Net Expense	\$ 2,060,245	\$ (372,901)	\$ (1,983,446)	\$ (1,992,584)	\$ 3,281,572	\$ 863,273	\$ 7,096,400	\$ (766,648)	\$ (5,163,357)	\$ (4,171,305)
General Revenues and Other Changes in Net Position										
Governmental Activities:										
Taxes:										
Property Taxes	\$ 1,092,128	\$ 1,197,063	\$ 1,246,453	\$ 1,590,561	\$ 1,730,490	\$ 1,787,878	\$ 1,898,668	\$ 1,972,984	\$ 2,046,143	\$ 2,061,784
Retail Sales & Use Taxes	2,209,167	2,303,764	2,281,822	2,506,720	3,323,801	3,509,621	3,241,145	2,983,521	3,089,028	2,905,695
Utility Taxes	-	-	-	6,121	-	-	-	-	-	-
Business Taxes	932,001	949,054	978,923	1,014,777	979,088	1,110,212	1,452,140	1,527,557	1,532,771	1,691,487
Excise Taxes	244,399	344,003	477,220	645,992	656,366	739,141	565,800	398,550	340,508	300,344
Motor Fuel Taxes	-	-	-	-	-	-	-	-	-	-
Penalties & Interest	32	75	-	33	95	-	-	-	-	-
Investment earnings	233,694	126,445	130,220	237,180	718,819	818,379	579,695	157,625	104,893	61,220
Gain (loss) on disposal of capital assets	2,561	(154)	(79,307)	4,913	865	(6,963)	701	724,911	-	13,139
Permanent Fund Contributions	1,014	-	-	-	-	-	-	-	-	-
Specialty Item	(181,253)	-	-	-	-	-	-	-	-	-
Transfers	259,049	264,753	265,918	249,764	246,000	258,251	0	-	-	-
Total Governmental Activities	4,792,791	5,185,003	5,301,247	6,256,059	7,655,524	8,216,519	7,738,149	7,765,148	7,113,343	7,033,670
Business-Type Activities										
Penalties & Interest	6	-	-	-	-	-	-	-	-	-
Investment earnings	102,315	36,629	42,439	101,882	239,850	334,691	275,353	87,942	96,415	56,345
Gain (loss) on disposal of capital assets	3,005	167	-	(23,633)	-	800	-	-	-	-
Transfers	(259,049)	(264,753)	(265,918)	(249,764)	(246,000)	-	-	-	-	-
Total Business-Type Activities	(153,723)	(227,957)	(223,478)	(171,514)	(6,151)	335,491	275,353	87,942	96,415	56,345
Total Primary Government	\$ 4,639,067	\$ 4,957,046	\$ 5,077,769	\$ 6,084,544	\$ 7,649,373	\$ 8,552,010	\$ 8,013,502	\$ 7,853,090	\$ 7,209,758	\$ 7,090,016
Change in Net Position										
Governmental Activities	\$ 2,843,782	\$ 2,517,518	\$ 1,179,370	\$ 2,388,074	\$ 5,084,847	\$ 3,834,787	\$ 5,958,663	\$ 2,651,788	\$ 579,984	\$ 1,813,466
Business-Type Activities	3,855,530	2,066,627	1,914,954	1,703,887	5,846,098	5,580,497	9,151,239	4,434,655	1,466,417	1,105,245
Total Primary Government	\$ 6,699,312	\$ 4,584,145	\$ 3,094,324	\$ 4,091,961	\$ 10,930,945	\$ 9,415,284	\$ 15,109,902	\$ 7,086,442	\$ 2,046,401	\$ 2,918,711

Note:
¹ Water and Sewer activities were reported together until the 2006 CAFR.

GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
Last Ten Fiscal Years

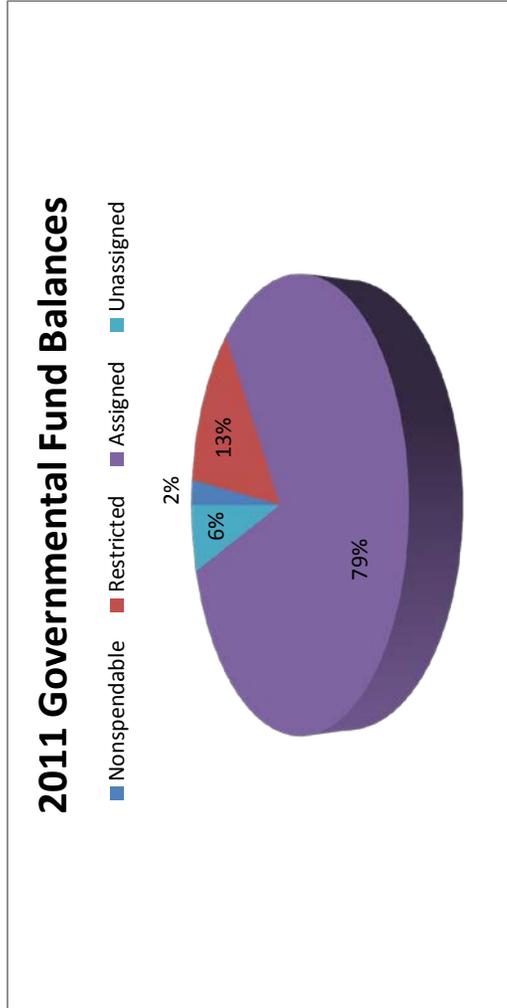
Fiscal Year	Property Tax	Sales/Use Tax	BusinessTax	Excise Tax	Total Taxes
2002	1,092,128	2,317,288	809,756	258,523	4,477,695
2003	1,197,063	2,415,924	820,791	360,105	4,793,883
2004	1,246,453	2,387,791	856,207	493,968	4,984,419
2005	1,590,561	2,641,392	861,489	664,607	5,758,049
2006	1,730,490	3,322,620	980,268	656,366	6,689,744
2007	1,779,890	3,482,944	1,081,811	738,857	7,083,501
2008	1,888,104	3,340,683	1,475,115	565,813	7,269,716
2009	1,899,846	2,953,050	1,502,823	398,229	6,753,948
2010	2,053,214	3,038,419	1,516,144	340,062	6,947,838
2011	2,062,373	2,917,745	1,695,236	300,104	6,975,458



FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years

Fiscal Year	General Fund		Total General Fund	All Other Governmental Funds			Total All Other Governmental Funds
	Nonspendable	Assigned		Unassigned	Nonspendable	Restricted	
2011	9,843	1,628,270	1,908,084	91,016	642,511	2,198,283	2,931,810

Note: The City implemented GASB changes in 2011 and information prior to 2011 is not available.



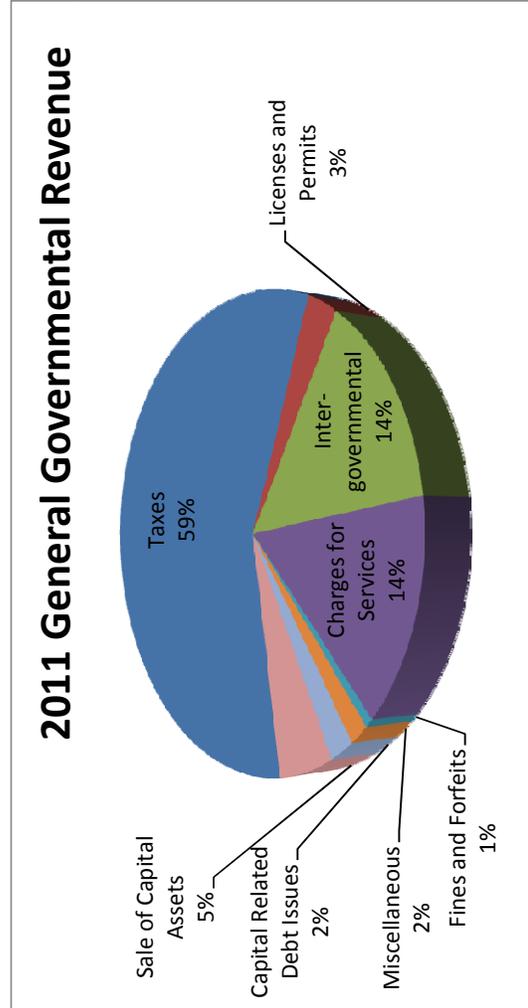
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues										
Taxes	\$ 4,702,950	\$ 5,053,820	\$ 5,255,334	\$ 5,876,048	\$ 6,828,714	\$ 7,381,362	\$ 7,269,716	\$ 6,757,754	\$ 6,947,838	\$ 6,975,383
Licenses and Permits	333,424	335,050	382,285	614,391	517,095	860,178	386,251	460,321	397,513	351,107
Intergovernmental Revenues	1,506,776	2,554,371	1,151,526	432,120	2,155,192	3,014,360	2,117,665	2,893,320	1,897,881	1,682,571
Charges for Services	1,356,666	1,252,724	1,364,581	2,452,611	1,636,497	1,805,101	1,611,662	1,611,449	1,501,119	1,710,343
Fines and Forfeitures	97,953	236,840	104,859	97,108	108,781	106,704	103,210	89,382	87,184	85,063
Interest & Other Earnings	217,459	126,750	127,181	231,415	710,248	811,654	576,967	156,803	104,688	61,220
Miscellaneous	178,731	238,156	268,953	226,861	124,439	213,682	65,517	143,996	122,600	138,250
Total Revenues	8,393,958	9,797,711	8,654,718	9,930,555	12,080,967	14,193,041	12,130,988	12,113,024	11,058,823	11,003,936
Expenditures										
General Government	2,004,640	2,021,993	2,068,988	1,880,437	2,222,182	2,401,891	2,510,110	2,557,344	2,623,129	2,609,575
Security of Persons and Property	1,828,921	1,856,610	1,815,863	2,010,463	2,116,770	2,377,818	2,289,655	2,544,115	2,648,619	2,516,324
Utilities and Environment	480,445	579,134	479,589	425,839	497,437	566,156	585,591	474,649	460,417	479,286
Transportation	470,602	461,682	604,561	612,296	675,217	2,756,203	2,657,624	837,427	819,169	740,214
Economic Environment	381,475	440,816	572,399	634,263	738,917	839,269	891,608	845,073	857,604	630,374
Mental and Physical Health	9,457	9,909	10,767	12,489	12,838	13,489	13,694	14,213	14,481	14,573
Culture and Recreation	970,598	1,032,864	1,128,611	1,201,711	1,290,717	1,553,747	1,779,008	1,218,559	1,209,305	1,125,459
Capital Outlay	2,641,461	3,298,481	2,223,203	1,687,441	4,703,590	2,572,498	3,624,733	7,788,933	8,907,259	2,662,204
Debt Service										
Principal	356,427	958,608	348,608	384,323	579,323	574,323	1,199,323	704,323	604,368	634,368
Interest & Fiscal Charges	98,777	153,941	160,605	150,670	332,355	323,951	303,190	430,172	506,692	493,171
Total Expenditures	9,242,803	10,813,837	9,413,193	8,999,932	13,169,345	13,979,345	15,854,538	17,414,810	18,651,045	11,905,548
Excess of revenues over (under) expenditures	(848,845)	(1,016,126)	(758,475)	930,623	(1,088,379)	213,696	(3,723,550)	(5,301,785)	(7,592,223)	(901,612)
Other financing sources (uses)										
Proceeds of Long Term Debt	1,560,475	2,550,000	42,944	5,185,000	-	-	-	6,096,515	1,510,000	625,000
Premium on Bonds Sold	-	-	-	-	-	-	-	-	1,044	-
Disposal of Capital Assets	4,979	3,782	1,878	4,913	865	-	2,180	2,800,000	20,000	16,970
Comp for Impairment of Cap Assets	-	-	-	-	-	-	-	-	-	-
Net Transfers In (Out)	38,488	-	58,079	15,260	51,985	67,350	(15,000)	-	98,800	273,639
Intergovernmental Payment	-	-	-	-	-	-	-	-	-	-
Payment to Refund Bond Escrow Agent	(405,000)	-	-	-	-	-	-	-	-	-
Issuance Discount on Long-Term Debt	9,540	41,954	1,162	(82,451)	-	-	-	(54,071)	(6,473)	-
Total other financing sources (uses)	1,208,482	2,595,736	104,064	5,122,722	52,850	67,350	(12,820)	8,842,445	1,623,371	915,609
Net change in fund balances	\$ 359,637	\$ 1,579,610	\$ (654,411)	\$ 6,053,345	\$ (1,035,529)	\$ 281,046	\$ (3,736,370)	\$ 3,540,659	\$ (5,968,852)	\$ 13,997
Debt service as a percentage of noncapital expenditures	6.90%	14.80%	7.08%	7.32%	10.77%	7.87%	12.29%	11.79%	11.40%	12.20%

GENERAL GOVERNMENTAL REVENUES BY SOURCE
Last Ten Fiscal Years

Fiscal Year	REVENUES							OTHER FINANCING SOURCES (USES)							Total Revenues and Other Sources
	Taxes	Licenses and Permits	Intergovernmental	Charges for Services	Fines and Forfeits	Miscellaneous	Total Revenues	Capital Related Issues	Debt	Sale of Capital Assets	Net Transfers in (out)	Financing Sources (Uses)			
2002	4,702,950	333,424	1,506,776	1,356,666	97,953	396,190	8,393,958	1,155,475	4,979	38,488	1,198,942	9,592,900			
2003	5,053,820	335,050	2,554,371	1,252,724	236,840	364,906	9,797,711	2,550,000	3,782	-	2,553,782	12,351,493			
2004	5,255,334	382,285	1,151,526	1,364,581	104,859	396,134	8,654,718	42,944	1,878	58,079	102,901	8,757,619			
2005	5,876,048	614,391	432,120	2,452,611	97,108	226,861	9,699,139	5,102,549	4,913	15,260	5,122,722	14,821,861			
2006	6,828,714	517,095	2,155,192	1,636,497	108,781	834,687	12,080,967	-	865	51,985	52,850	12,133,817			
2007	7,381,362	860,178	3,014,360	1,805,101	106,704	1,025,336	14,193,041	-	-	67,350	67,350	14,260,391			
2008	7,269,716	386,251	2,117,665	1,611,662	103,210	642,483	12,130,988	(15,000)	2,180	-	(12,820)	12,118,168			
2009	6,757,754	460,321	2,893,320	1,611,449	89,382	300,799	12,113,024	6,042,445	2,800,000	-	8,842,445	20,955,469			
2010	6,947,838	397,513	1,897,881	1,501,119	87,184	227,288	11,058,823	311,044	1,213,527	98,800	1,623,371	12,682,193			
2011	6,975,383	351,107	1,682,571	1,710,343	85,063	199,470	11,003,936	273,639	641,970	-	915,609	11,919,545			

2011 General Governmental Revenue



ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

Fiscal Year Ended December 31	Personal Property		Less: Tax Exempt Real Property		Total Taxable Assessed Value ¹		Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
	Real Property	Personal Property	Real Property	Personal Property	Assessed Value ¹	Assessed Value			
2002	631,605,477	35,662,271	76,893,725	35,662,271	590,374,023	590,374,023	1.753	670,879,572	88.0
2003	687,861,685	34,377,866	81,937,703	34,377,866	640,301,848	640,301,848	1.709	743,672,297	86.1
2004	811,445,976	32,598,832	104,902,292	32,598,832	739,142,516	739,142,516	1.930	849,589,099	87.0
2005	998,820,555	37,296,158	130,764,431	37,296,158	905,352,282	905,352,282	1.712	1,004,830,502	90.1
2006	1,359,944,770	37,817,375	202,658,963	37,817,375	1,195,103,182	1,195,103,182	1.428	1,359,616,817	87.9
2007	1,500,268,177	55,589,284	218,520,151	55,589,284	1,337,337,310	1,337,337,310	1.440	1,523,163,223	87.8
2008	1,524,122,775	40,675,295	186,579,815	40,675,295	1,378,218,255	1,378,218,255	1.434	1,598,861,085	86.2
2009	1,435,423,041	52,673,622	178,062,955	52,673,622	1,310,033,708	1,310,033,708	1.563	1,519,760,682	86.2
2010	1,427,087,076	52,724,550	199,102,348	52,724,550	1,280,709,278	1,280,709,278	1.615	1,448,766,152	88.4
2011	1,358,145,256	51,027,470	164,915,580	51,027,470	1,244,257,146	1,244,257,146	1.717	1,401,190,480	88.8

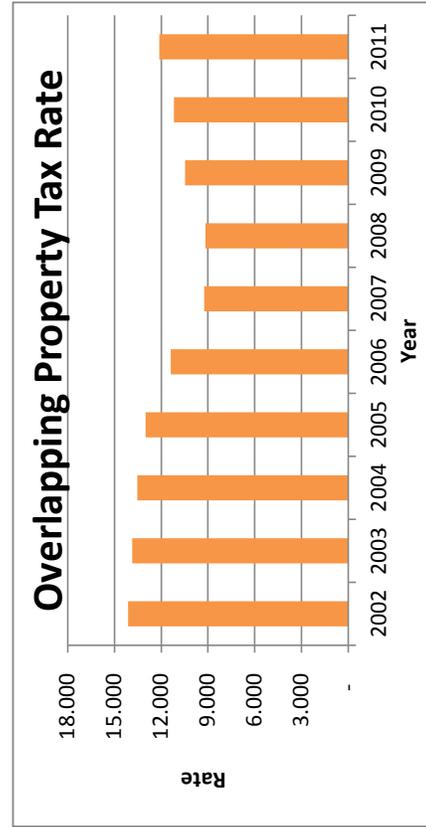
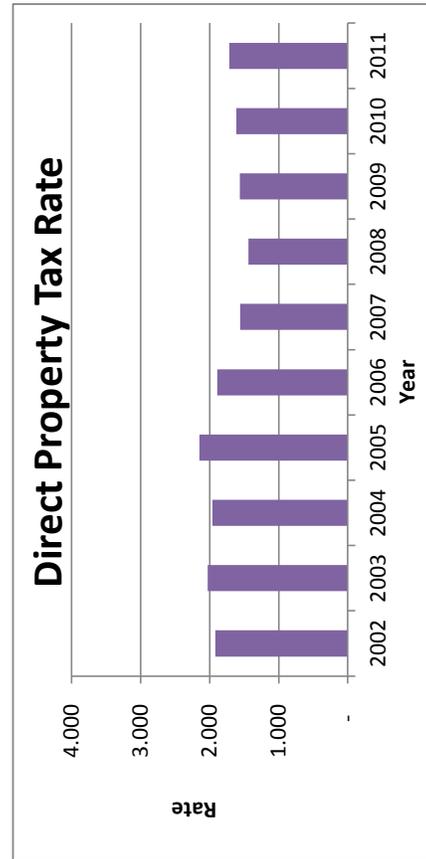
¹ Figure represents current year assessed value payable in following year
Source: Kitsap County Assessor's Office

PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
Last Ten Fiscal Years

Fiscal Year	School										Other Overlapping Rates					Total Direct & Overlapping
	Debt Service**		Total City	Kitsap County		State School	NK School District	Port of Poulsbo	Fire District #18	Public Utility	Kitsap Regional Library		Poulsbo Library	Total Overlapping Rates		
	Operating	Debt		County	County						Regional Library	Library				
2002	1.633	0.286	1.919	1.670	3.148	4.495	0.347	1.881	0.106	0.483	0.077	12.206	14.125			
2003	1.753	0.274	2.027	1.602	2.927	4.421	0.371	1.885	0.102	0.462	0.072	11.840	13.868			
2004	1.709	0.251	1.960	1.413	3.080	4.291	0.356	1.826	0.100	0.453	0.058	11.577	13.537			
2005	1.930	0.221	2.151	1.309	2.961	3.992	0.338	1.684	0.092	0.420	0.053	10.848	13.000			
2006	1.712	0.179	1.891	1.131	2.599	3.497	0.300	1.476	0.080	0.362	0.044	9.489	11.380			
2007	1.428	0.133	1.561	0.963	2.296	2.836	0.249	1.208	0.068	0.031	0.035	7.684	9.245			
2008	1.440	-	1.440	0.877	2.028	2.594	0.236	1.607	0.062	0.280	0.031	7.716	9.156			
2009	1.563	-	1.563	0.990	2.134	3.148	0.260	1.957	0.068	0.320	0.033	8.911	10.474			
2010	1.615	-	1.615	1.068	2.378	3.400	0.272	2.000	0.074	0.347	0.036	9.575	11.190			
2011	1.717	-	1.717	1.139	2.497	3.723	0.291	2.268	0.078	0.371	0.038	10.404	12.121			

**Note: The last year for debt service for a voted bond was in 2007

Source: Kitsap County Assessor's Office - Statement of Assessments



PRINCIPAL TAXPAYERS
Current Year and Nine Years Ago

Taxpayer	2011			2002*		
	2011 Assessed Valuation	Rank	% of Total Assessed Valuation	2002 Assessed Valuation	Rank	% of Total Assessed Valuation
OLHAVA ASSOCIATES LMTD PTNSP	\$ 19,250,200	1	1.55%	\$ 10,983,000	1	1.92%
WAL MART TRS LLC STORE 5272 POULSB	17,420,780	2	1.40%	9,324,000	2	1.63%
LAURELHURST APARTMENTS CO	14,187,990	3	1.14%	8,912,000	3	1.56%
LIBERTY RIDGE APTS LLC	11,221,370	4	0.90%	8,910,000	4	1.56%
COLLEGE MARKETPLACE LLC	10,326,320	5	0.83%	8,372,300	5	1.47%
HD DEVELOPMENT OF MARYLAND INC	10,198,280	6	0.82%	7,758,000	6	1.36%
RYAN TIM PROPERTIES LP	9,951,170	7	0.80%	6,532,000	7	1.14%
POULSBO PROFESSIONAL PROPERTIES LL	9,887,310	8	0.79%	5,913,149	8	1.04%
HERN JOHN M & TERRI A	9,172,580	9	0.74%	4,868,000	9	0.85%
POULSBO RETIREMENT CENTER	8,369,240	10	0.67%	4,747,000	10	0.83%
	TOTALS: \$ 119,985,240		9.64%	\$ 76,319,449		13.37%

Source: Kitsap County Assessor's Office

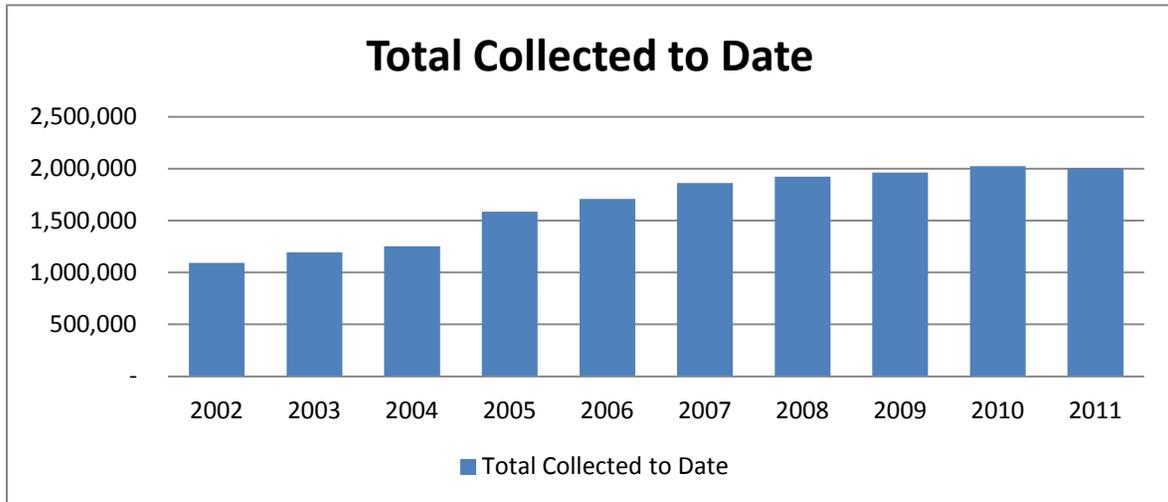


**PROPERTY TAX LEVIES AND COLLECTIONS
2002 - 2011**

Fiscal Year	Total Tax Levy	Collected within the Fiscal Year of the Levy		Delinquent Tax Collected	Total Collections to Date		Outstanding Delinquent Taxes (ODT)	ODT As % of Current Levy
		Amount	% of Levy		Amount	% of Levy		
2002	1,093,594	911,627	83.36%	179,821	1,091,448	99.80%	2,146	0.20%
2003	1,195,117	1,169,635	97.87%	22,889	1,192,525	99.78%	2,592	0.22%
2004	1,253,074	1,221,213	97.46%	29,935	1,251,148	99.85%	1,926	0.15%
2005	1,589,053	1,550,699	97.59%	35,446	1,586,145	99.82%	2,908	0.18%
2006	1,710,873	1,685,921	98.54%	21,878	1,707,799	99.82%	3,074	0.18%
2007	1,864,277	1,820,831	97.67%	41,149	1,861,980	99.88%	2,297	0.12%
2008	1,925,724	1,873,649	97.30%	48,360	1,922,008	99.81%	3,716	0.19%
2009	1,976,950	1,900,928	96.15%	61,884	1,962,812	99.28%	14,138	0.72%
2010	2,047,191	1,981,228	96.78%	41,814	2,023,042	98.82%	24,149	1.18%
2011	2,067,936	1,995,773	96.51%	8,827	2,004,599	96.94%	63,337	3.06%

¹ Washington State Voter Initiation 747 was passed limiting property taxes for taxing jurisdictions under 10,000 in population to 1% over the previous year's levy

Source: Kitsap County Treasurer and Assessor's Office



**SALES TAX RATE DIRECT AND OVERLAPPING GOVERNMENTS
Last Ten Fiscal Years**

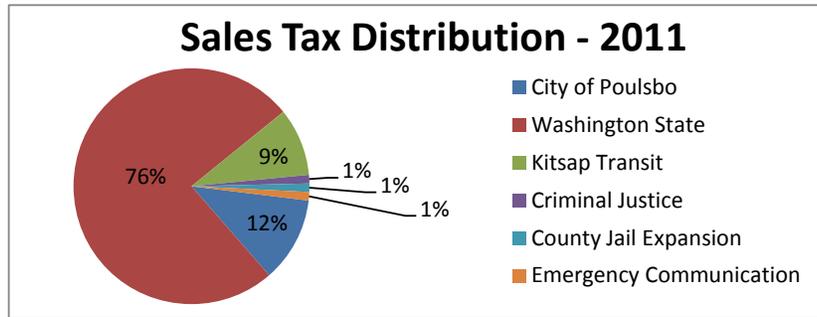
	2002 ^(a)	2003	2004 ^(b)	2005	2006	2007	2008	2009	2010	2011
Basic Sales Tax Rates										
City of Poulsbo	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Washington State	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Kitsap Transit	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Criminal Justice	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
County Jail Expansion	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Emergency Communication	-	-	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Total Basic Combined Sales Tax Rate	8.5%	8.5%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%
Special Sales Tax Rates										
Hotel/Motel ^(c)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

^(a) Eff. Oct 1, 2001, the Kitsap Co. Public Transportation Benefit Area increased their levy by three-tenths of one percent (.003) with voter approval

^(b) Eff. 2004, voters approved an initiative for one-tenth of one percent (.001) to provide a reliable long-term funding source for Kitsap County 911

^(c) In effect since 1998, this 2% Hotel/Motel Tax was approved by Ordinance 98-03 in accordance with RCW 82.08

Source: Washington State Department of Revenue Local Sales and Use Tax Rates



RETAIL SALES TAX REVENUE BY SECTOR
Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Major Industry Sector										
Unknown	19,337	11,287	8,142	8,044	13,373	15,140	8,529	4,721	22,144	41,121
Agriculture, Forestry Fishing	172	264	301	232	567	459	526	665	620	593
Mining	177	67	285	298	334	150	96	252	556	384
Utilities	1,742	2,469	1,222	1,018	1,538	1,694	2,866	2,618	1,876	2,081
Construction	341,598	404,472	325,656	427,005	467,266	454,627	420,541	273,295	318,387	316,718
Manufacturing	23,137	20,749	22,842	21,837	27,855	38,137	34,999	30,774	34,968	40,558
Wholesale Trade	103,561	102,716	122,172	144,851	135,929	150,273	144,849	91,669	86,317	89,855
Retail Trade	1,120,403	1,127,207	1,130,908	1,232,464	1,815,464	1,888,749	1,780,157	1,712,476	1,747,160	1,692,686
Transportation and Warehousing	1,729	1,465	1,568	2,172	2,094	1,593	1,093	1,188	1,566	1,921
Information	113,463	121,953	122,665	101,994	108,898	78,940	103,749	101,511	104,216	88,226
Finance and Insurance	21,475	17,352	12,277	11,817	19,385	18,841	15,116	7,962	7,174	9,228
Real Estate, Rental, Leasing	49,592	64,056	58,020	64,113	68,775	66,251	59,476	75,948	55,022	41,234
Prof Sci, Technical Svcs	26,033	22,014	30,799	34,326	33,269	38,658	42,981	43,304	31,335	29,699
Company Management	61	23	158	208	214	175	89	37	17	6
Admin, Supp, Remed Svcs	37,075	37,133	38,253	32,093	38,446	37,446	39,076	32,001	31,310	36,795
Educational Services	4,193	4,289	5,877	4,615	4,058	7,017	6,380	5,988	6,393	6,521
Health Care Social Assistance	8,988	9,755	7,503	6,210	6,927	13,924	10,820	13,310	8,280	8,885
Arts, Entertain, Recreation	3,716	5,907	8,501	6,484	11,650	12,997	13,749	6,971	10,245	12,699
Accommodation and Food Svcs.	193,388	206,333	222,014	236,119	241,044	237,134	249,801	273,308	282,394	286,244
Other Services	65,337	65,468	79,221	79,433	86,062	90,581	88,906	80,180	83,445	76,553
Public Administration	17	1,403	13	567	12	21	245	18,365	16,806	18,065
Total Retail Sales Tax Revenues*	\$2,135,194	\$2,226,382	\$2,198,397	\$2,415,900	\$3,083,160	\$3,152,807	\$3,024,044	\$2,776,543	\$2,850,232	\$2,800,072

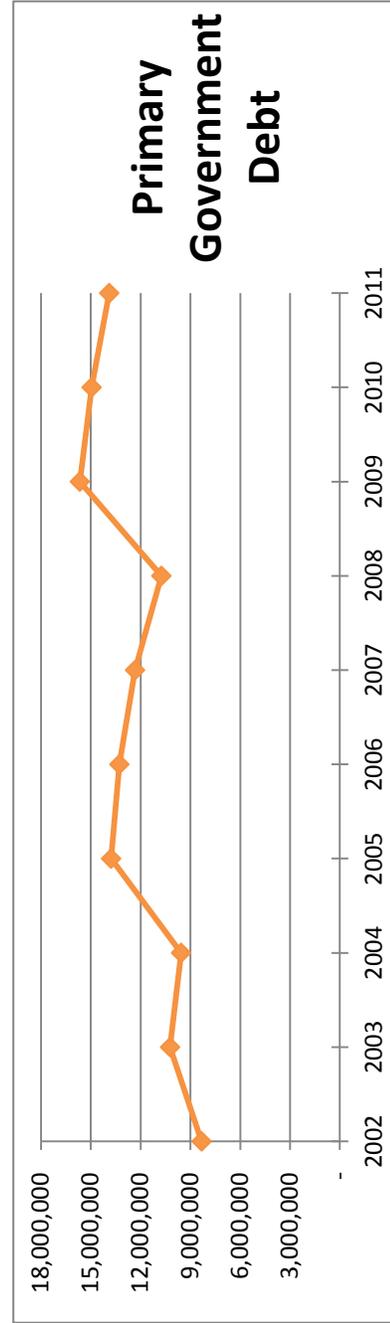
*The revenues reflected here are based on time of reporting so do not represent the same amount as reported in financials
Sources: City of Poulsbo Finance Department and Washington State Department of Revenue

RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

Fiscal Year	Governmental Activities			Business-Type Activities				Total Primary Government	Percentage of Personal Income ¹	Per Capita ¹
	General Obligation Bonds	PWTF Loans	Water Bonds	Sewer Bonds	PWTF Loans					
2002	1,080,000	1,302,224	1,036,200	4,313,800	596,021		8,328,245	3.73%	1,189	
2003	3,301,261	1,279,878	1,005,400	4,089,600	550,173		10,226,312	4.43%	1,459	
2004	3,025,000	1,207,533	973,500	3,856,500	504,325		9,566,858	3.84%	1,329	
2005	7,465,000	1,155,344	974,380	3,729,620	458,477		13,782,821	5.11%	1,850	
2006	7,415,000	1,071,021	933,900	3,451,100	412,630		13,283,651	4.59%	1,774	
2007	6,925,000	986,698	893,200	3,166,800	366,782		12,338,480	4.04%	1,632	
2008	5,810,000	902,375	818,180	2,900,820	320,934		10,752,309	3.28%	1,371	
2009	11,205,000	818,051	740,740	2,626,260	275,086		15,665,137	4.19%	1,769	
2010	10,985,000	743,683	659,340	2,337,660	229,239		14,954,922	-	1,677	
2011	10,425,000	669,315	575,080	2,038,920	183,391		13,891,706	-	1,503	

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

¹ See the Schedule of Demographic and Economic Statistics for personal income and population data.



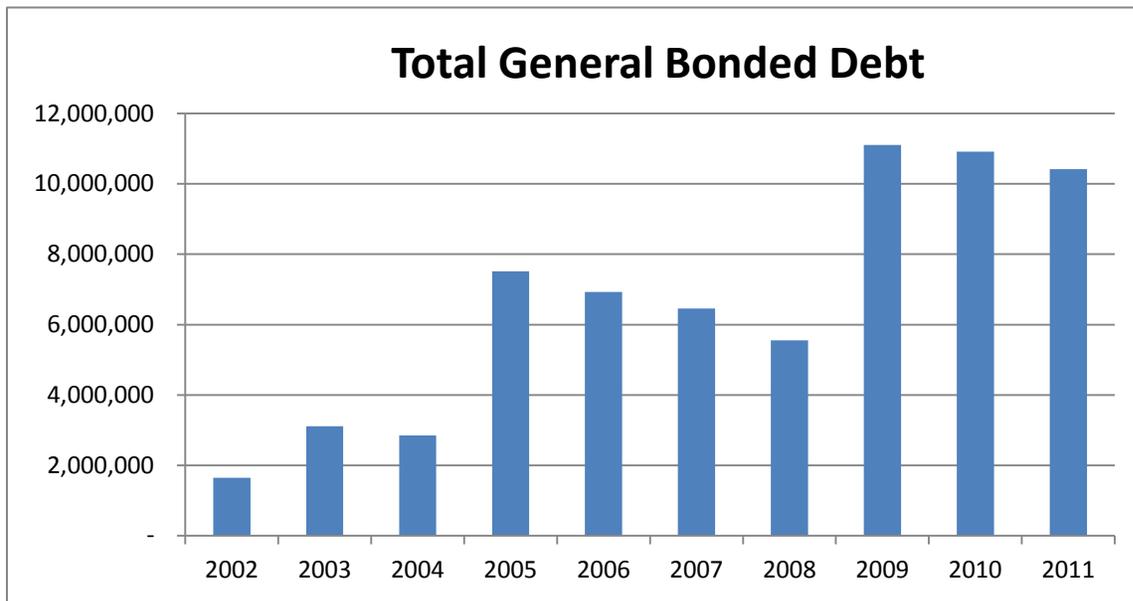
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	% of Estimated Actual Taxable Value¹ of Property	Per Capita²
2002	1,842,523	197,100	1,645,423	0.25%	235
2003	3,301,261	193,028	3,108,233	0.42%	443
2004	3,025,000	179,043	2,845,957	0.33%	395
2005	7,910,000	395,506	7,514,494	0.75%	1,009
2006	7,415,000	483,345	6,931,655	0.51%	925
2007	6,925,000	463,990	6,461,010	0.42%	855
2008	5,810,000	254,032	5,555,968	0.35%	709
2009	11,205,000	99,362	11,105,638	0.73%	1,254
2010	10,985,000	72,582	10,912,418	0.75%	1,223
2011	10,425,000	3,177	10,421,823	0.74%	1,127

Note: Details regarding the city's outstanding debt can be found in the Notes to the Financial Statements.

¹ See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property for property value data.

² Population data can be found in the Schedule of Demographic and Economic Statistics.



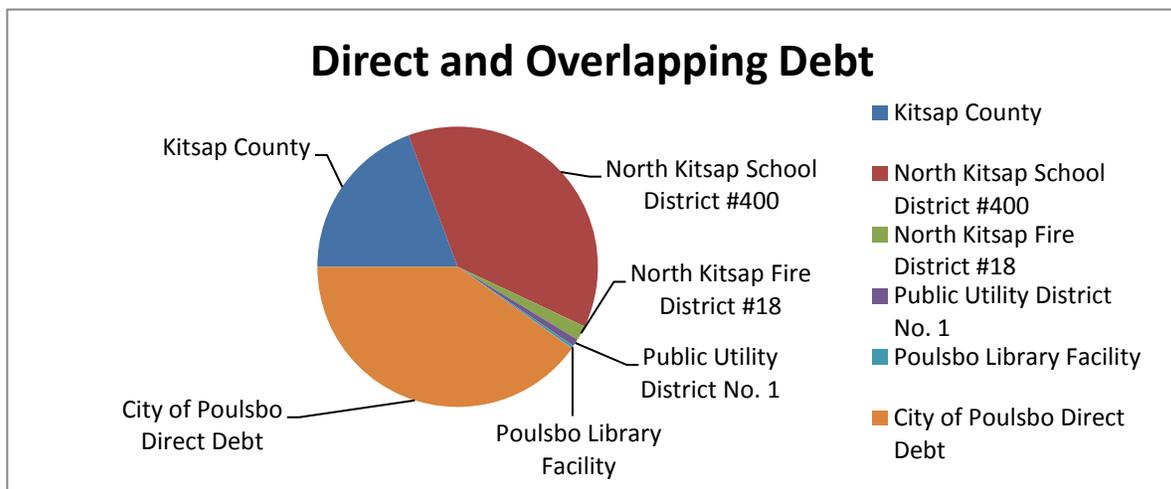
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
As of December 31, 2011

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated % Applicable¹</u>	<u>Estimated Share of Overlapping Debt</u>
Kitsap County	\$ 116,445,722	4.59%	\$ 5,340,035
North Kitsap School District #400	49,965,124	20.85%	\$ 10,415,933
North Kitsap Fire District #18	980,000	48.14%	\$ 471,742
Public Utility District No. 1	5,015,000	4.59%	\$ 229,981
Poulsbo Library Facility	285,000	30.51%	\$ 86,959
<i>Subtotal, Overlapping Debt</i>			16,544,651
City of Poulsbo Direct Debt	11,094,315	100%	<u>11,094,315</u>
Total Direct and Overlapping Debt			<u><u>\$ 27,638,966</u></u>

Sources: Assessed value data used to estimate applicable percentages provided by the Kitsap County Assessor's Office. Debt outstanding data provided by the Kitsap County Treasurer's Office.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Poulsbo. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt of each overlapping government.

¹ The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the unit's taxable assessed value that is within the city's boundaries and dividing it by the units total taxable assessed value.



LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt Limit	\$ 44,278,052	\$ 48,022,639	\$ 55,435,689	\$ 67,901,421	\$ 89,632,739	\$ 100,300,298	\$ 103,366,369	\$ 98,252,528	\$ 96,053,196	\$ 93,319,286
Total net debt applicable to limit	1,485,423	3,108,233	3,204,043	7,514,494	6,931,655	6,461,010	5,555,968	11,105,638	10,912,418	10,421,823
Legal debt margin	\$ 42,792,629	\$ 44,914,406	\$ 52,231,646	\$ 60,386,928	\$ 82,701,084	\$ 93,839,288	\$ 97,810,401	\$ 87,146,890	\$ 85,140,778	\$ 82,897,463
Total net debt applicable to the limit as a % of debt limit	3.35%	6.47%	5.78%	11.07%	7.73%	6.44%	5.38%	11.30%	11.36%	11.17%

Legal Debt Margin Calculation for Fiscal Year 2011

Assessed value	1,244,257,146
Debt limit (7.5% of total assessed value)	93,319,286
Debt applicable to limit:	
General obligation bonds	10,425,000
Less: Amount set aside for repayment of GO Debt	3,177
Total net debt applicable to limit	10,421,823
Legal debt margin	\$ 82,897,463

Sources: Assessed value data used to estimate applicable percentages provided by the Kitsap County Auditor's

Note: Under state finance law, the City of Poulsbo's outstanding general obligation debt should not exceed 7.5 percent of total assessed property value. By law, the general obligation debt subject to the limitation may be offset

PLEDGED-REVENUE COVERAGE
Last Ten Fiscal Years

Fiscal Year	Water and Sewer Revenue Bonds					
	Charges for Services & Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2002	4,512,468	1,475,961	3,036,507	285,848	282,252	535%
2003	4,859,258	1,599,149	3,260,109	300,848	268,574	573%
2004	5,689,568	1,446,543	4,243,025	310,848	255,104	750%
2005	6,093,239	5,487,448	605,791	3,305,848 ¹	226,266	17%
2006	3,108,704	2,195,044	913,660	364,848	210,721	159%
2007	3,182,279	2,355,900	826,379	325,000	177,073	165%
2008	3,188,562	2,850,000	338,562	341,000	165,567	67%
2009	3,701,500	2,658,098	1,043,402	352,000	148,164	209%
2010	3,815,564	2,799,832	1,015,732	370,000	122,885	206%
2011	3,830,235	3,110,144	720,092	383,000	113,324	145%

Note: Details regarding the government's outstanding debt can be found in the Notes to the Financial Statements. Charges for services and other includes plan checking fees but not tap fees and interest. Operating Expenses include depreciation but not interest.

¹ In 2005, A portion of the 1998 Revenue Bonds were refunded.

DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

FISCAL YEAR	POPULATION	COUNTY POPULATION	KC PERSONAL INCOME* ¹	PERSONAL INCOME ¹	PER CAPITA INCOME*	UNEMPLOYMENT RATE**	SCHOOL ENROLLMENT ² ***
2002	7,005	234,700	7,475,565	223,120	32,420	6.7%	3,405
2003	7,010	237,000	7,806,826	230,911	33,348	6.7%	3,433
2004	7,200	239,500	8,284,815	249,063	35,178	5.8%	3,324
2005	7,450	240,400	8,706,269	269,807	37,769	5.1%	3,367
2006	7,490	243,400	9,398,583	289,217	39,777	4.8%	3,524
2007	7,560	244,800	9,888,582	305,383	42,163	4.4%	3,330
2008	7,840	246,800	10,312,169	327,583	43,851	5.4%	3,013
2009	8,855	247,600	10,454,459	373,886	43,404	7.6%	3,060
2010	8,920	251,133	---	--	0	7.3%	3,124
2011	9,245	253,900	---	--	0	7.7%	2,992

¹ Thousands of Dollars and information only available through 2009

² 2002-2011 are totals for only schools in city limits

* Source: US Bureau of Economic Analysis-Kitsap County based on population of City only available through 2009

** Source: Washington State Department of Employment Security-Kitsap County

*** Source: North Kitsap School District & Office of Superintendent of Public Instruction WA State

PRINCIPAL EMPLOYERS

Current Year and Ten Years Ago

	2011			2001			
	TOTAL EMPLOYEES ¹	Rank	% of Total City Employment	TOTAL EMPLOYEES ¹	Rank	% of Total City Employment	
Taxpayer							
	Type of Business						
North Kitsap School District	Public Educaiton	824	1	9.50%	700	1	9.09%
Martha & Mary Lutheran Services	Social Services	536	2	6.18%	240	4	3.12%
Walmart	Retail Trade	314	3	3.62%			
Central Market	Retail Trade	230	4	2.65%	311	2	4.04%
Raytheon Systems	Government Contracting	195	5	2.25%	250	3	3.25%
Masterworks	Advertising	123	6	1.42%			
Home Depot	Retail Trade	116	7	1.34%			
Christ Memorial Children's Learning	Education	86	8	0.99%	79	10	1.03%
Paladin Data Systems	IT	81	9	0.93%			
Gateway Fellowship	Religious	72	10	0.83%			
Lockheed Martin Bangor	Government Contracting	-		-	220	5	2.86%
Seattle Orthopedic Group	Manufacturing	-		-	150	6	1.95%
Courtesy Chevrolet ²	Auto Sales	-		-	135	7	1.75%
EDS Corporation ²	Technical Services	-		-	130	8	1.69%
General Construction Company ²	Construction	-		-	100	9	1.30%
Subtotal of Ten Largest Employers		2577		29.72%	2315		30.05%
All Other Employers		6094		70.28%	5388		69.95%
Total Poulsbo Employment³		8671		100.00%	7703		100.00%

¹ Full and part-time employees are tracked.

² Office closed or moved out of City

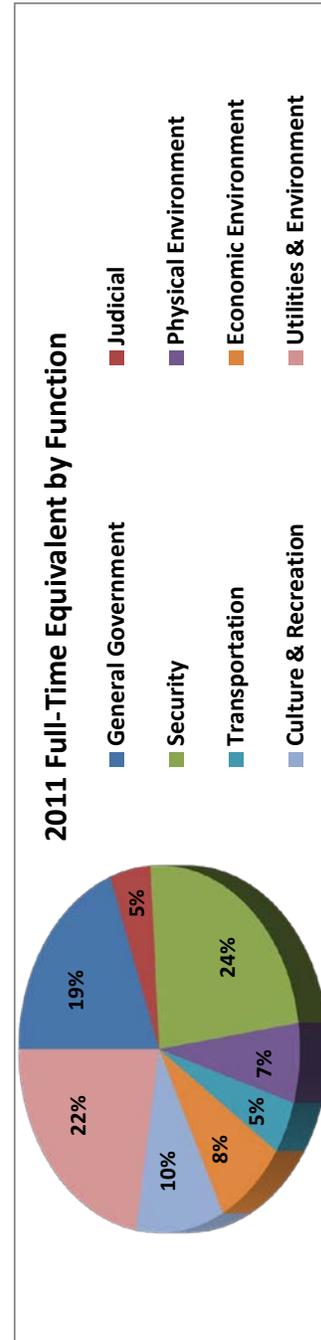
³ 2009 Total Poulsbo Employment number is latest available per ESD

Source: Kitsap Economic Development Council Survey, WA St Employment Security Department

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION

As of December 31, 2011

Function	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government:										
Executive (Mayor)	1.00	1.00	1.00	1.00	1.00	1.63	1.63	2.00	2.00	1.00
Clerk's Department	3.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.00
Finance Department	8.33	7.50	7.00	6.50	7.00	7.00	8.00	8.00	8.00	7.00
Grant Writer	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	-
Information Services	-	-	-	1.00	1.00	1.00	2.00	2.00	2.00	1.00
Purchasing	2.50	2.50	2.00	-	-	-	-	-	-	-
Personnel	-	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.15	1.00
Central Services	1.72	1.79	1.79	1.90	1.90	1.90	1.90	1.90	1.90	2.50
Municipal Court	4.90	4.90	3.90	3.39	3.39	3.90	4.26	4.21	4.21	3.77
Police Department	19.00	20.00	20.00	20.00	20.00	20.00	22.00	22.00	21.00	19.00
Engineering	5.38	6.38	6.50	5.00	6.00	6.00	6.45	5.95	5.95	5.63
Streets	2.96	3.91	3.91	4.36	4.36	4.70	4.70	4.70	4.70	3.70
Planning & Building	5.63	5.63	5.75	7.50	8.50	9.00	9.45	8.45	8.45	6.55
Parks & Recreation	5.92	5.92	5.92	5.92	6.32	6.42	6.42	6.42	6.62	5.87
Parks & Cemetery	2.65	2.90	2.90	3.48	3.98	3.25	3.25	2.25	2.25	2.25
Library	-	0.49	0.49	0.54	0.54	0.60	0.60	0.60	0.60	-
Water	3.20	2.28	2.28	3.46	3.46	2.90	2.90	2.90	2.90	3.30
Sewer	1.54	1.37	1.37	1.80	1.80	3.15	3.15	3.15	3.15	3.05
Solid Waste	3.61	2.88	2.88	3.49	3.99	3.55	3.55	3.05	3.05	3.05
Storm Drain	0.66	1.85	1.85	1.97	2.97	2.95	3.95	3.95	3.95	3.65
General Facilities	0.86	0.89	0.89	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Administration	7.80	7.64	7.64	5.00	6.00	5.00	5.10	5.10	5.10	3.88
Total Number of Full-Time Equivalent Employees:	81.56	84.73	83.47	82.71	88.61	89.35	95.71	93.03	92.38	80.20



Source: City of Poulsbo, Human Resources

OPERATING INDICATORS BY FUNCTION
Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<u>Governmental Functions</u>										
General Government Other										
Number of Unions Represented	2	2	2	2	2	2	2	2	2	2
Number of passports processed	993	878	858	806	1,119	1,024	1,018	1,015	617	805
Number of Business Licenses Issued	*	*	907	914	1,375	1,575	1,351	1,563	1,404	1,463
Number of City Council meetings	38	40	37	38	42	40	44	43	39	42
Number of public records requests processed	*	*	56	57	44	73	79	87	88	75
Public Safety										
Number of case reports filed	1,769	1,753	1,611	1,586	1,998	2,090	1,783	1,698	1,746	1,552
Number of citations issued	2,648	2,321	2,191	2,162	2,167	2,325	985	1,223	1,250	1,155
Number of calls for service	9,926	10,039	10,458	11,229	13,374	12,942	12,234	12,842	13,744	13,591
Number of responses to motor vehicle accidents	168	145	160	211	175	271	235	302	347	205
Number of driving impaired citations issued	83	78	49	58	110	72	71	103	84	77
Number of vacation house checks	1,605	1,819	1,350	909	1,034	1,049	847	847	1,114	677
Number of parking citations issued	101	155	171	177	231	63	230	114	568	802
Transportation										
Miles of streets maintained	30	32	35	37	39	45	45	45	45	45
Miles of sidewalks maintained	*	*	42	42	44	47	48	49	50	51
Number of hours spent street sweeping	396	420	420	490	546	550	468	468	323	225
Number of street signs maintained	910	1,213	1,553	1,805	1,875	2,174	2,174	2,204	2,204	2,215
Culture and Recreation										
Number of parks maintained	12	13	16	16	16	16	17	17	17	17
Total acreage of parks/open space maintained	48	48	48	61	64	64	65	67	67	67
Economic Environment										
Number of single family building permits issued	103	100	132	75	227	265	154	105	78	51
Number of commercial building permits	50	30	53	40	108	86	68	47	84	51
Number of all other building permits	*	*	*	*	91	117	74	61	74	100
Physical Environment										
Number of Right of Way Permits issued	*	35	37	47	41	42	46	40	57	41

OPERATING INDICATORS BY FUNCTION
Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Physical Environment (continued)										
Number of Land Use Applications reviewed	*	52	97	108	96	156	89	90	26	31
Number of grading/site construction permits/applications	*	*	*	20	19	10	42	4	9	5
Number of land use applications reviewed for commercial sites	*	*	*	9	6	19	14	7	11	3
Number of land use applications reviewed for residential sites	*	*	*	217	1,189	500	8	9	6	3
Business-Type Functions										
Total Number of Employees	26	26	27	27	30	29	30	28	28	28
Water										
Number of active water services	2,412	3,495	2,674	2,707	2,820	2,990	3,142	3,133	3,156	3,249
Miles of watermain lines maintained	47	53	57	58	60	61	61	62	62	62
Average number of water meters read monthly	2,412	2,433	2,554	2,663	2,758	3,051	3,093	3,147	3,259	3,292
Sewer										
Number of active sewer services	2,349	2,600	2,525	2,561	2,631	2,778	2,869	2,963	2,985	3,015
Miles of sewermain lines maintained	27	28	31	31	32	33	34	34	34	34
Number of pump stations maintained	7	8	8	8	8	9	9	9	9	9
Solid Waste										
Number of residential garbage accounts	1,990	2,129	2,217	2,273	2,310	2,430	2,746	2,623	2,641	2,668
Number of multi-family units	1,016	1,012	1,016	1,030	1,038	1,012	1,012	1,102	1,102	1,102
Number of commercial accounts	182	182	192	224	229	201	231	266	277	282
Number of tons of waste to landfill	5,221	4,878	5,181	5,200	5,690	5,700	4,794	4,894	4,810	4,87
Number of 3 day free dumpsters for residential clean-up provided	341	393	420	363	326	350	308	312	356	300
Storm Drain										
Number of detention ponds maintained	13	20	20	22	29	29	29	29	29	29

* The City implemented GASB 44 in 2006, prior year data is not readily available
Source: Internal Operating Statistics

CAPITAL ASSETS STATISTICS BY FUCTION
Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<u>Governmental Functions</u>										
General Government										
Number of City Vehicles (not listed below)	*	*	*	*	15	5	6	6	7	14
Generators	*	*	*	*	1	1	1	1	1	1
Public Safety										
Number of police vehicles	*	*	*	*	24	23	22	22	20	20
Number of police boats	1	1	1	1	1	1	1	1	1	1
Transportation										
Number of Vehicles (not specified below)						6	11	6	7	7
Number of Street Sweepers	1	1	1	1	1	1	1	1	1	1
Number of Dump Trucks	8	8	8	8	8	4	4	4	4	4
Miles of streets	30	32	35	37	39	39	45	47	48	48
Number of Traffic Signals	8	8	8	8	8	9	8	8	8	8
Number of bridges	1	1	1	1	1	1	1	1	1	1
Culture and Recreation										
Number of vehicles	1	1	1	1	1	1	1	1	1	1
Neighborhood parks	*	2	3	3	3	3	8	10	10	10
Community parks	*	11	13	13	13	13	8	5	5	5
Indoor recreational facilities	1	1	1	1	1	1	1	1	1	1
Economic Environment										
Number of Planning vehicles	*	*	1	1	1	1	1	1	1	1
Physical Environment										
Number of Engineering vehicles	*	*	*	3	4	4	4	4	4	1

CAPITAL ASSETS STATISTICS BY FUCTION
Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<u>Business-Type Functions</u>										
Water										
Generators	2	2	2	2	2	2	2	2	2	2
Miles of water mains	47	53	57	58	58	60	61	62	63	63
Number of vehicles	*	*	*	*	4	4	4	4	4	4
Number of construction vehicles	*	*	*	*	4	3	1	1	1	1
Number of hydrants	*	*	*	*	299	315	399	400	402	406
Sewer										
Generators	*	*	*	*	3	3	5	5	5	5
Number of vehicles	*	*	*	*	4	4	2	2	2	2
Number of construction vehicles	*	*	*	*	3	3	6	3	3	3
Number of Vacuum Trucks	1	1	1	1	1	1	1	1	1	1
Sewer inspection camera	1	1	1	1	1	1	1	1	1	1
Treatment plants (Pumping Stations)	7	8	8	8	8	8	9	9	9	9
Miles of sewer mains	27	28	31	31	31	33	33	34	34	34
Solid Waste										
Number of garbage trucks	*	*	4	4	5	5	4	6	6	6
Storm Drain										
Number of vehicles	*	*	*	*	2	3	3	3	3	3
Number of Vacuum Trucks	-	-	1	1	1	1	1	1	1	1

* The City implemented GASB 44 in 2006, prior year data is not readily available
Source: City of Poulsbo Fixed Asset Module



