

Washington State Auditor's Office
Financial Statements Audit Report

City of Bainbridge Island
Kitsap County

Audit Period
January 1, 2009 through December 31, 2009

Report No. 1004976

Issue Date
January 24, 2011



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

January 24, 2011

Mayor and City Council
City of Bainbridge Island
Bainbridge Island, Washington

Report on Financial Statements

Please find attached our report on the City of Bainbridge Island's financial statements.

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Table of Contents

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

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditor’s Report on Financial Statements.....	3
Financial Section.....	5

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

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

Mayor and City Council
City of Bainbridge Island
Bainbridge Island, Washington

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

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

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 29, 2010

Independent Auditor's Report on Financial Statements

City of Bainbridge Island Kitsap County January 1, 2009 through December 31, 2009

Mayor and City Council
City of Bainbridge Island
Bainbridge Island, 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 Bainbridge Island, Kitsap County, Washington, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed on page 5. 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 Bainbridge Island, as of December 31, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 6 through 12, budgetary changes information on pages 43 through 46, pension trust fund information on page 44 and budgetary comparison schedules on pages 45 through 46 are not a required part of the basic financial

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

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 29, 2010

Financial Section

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

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2009

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2009

Statement of Activities – 2009

Balance Sheet – Governmental Funds – 2009

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental
Funds – 2009

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities – 2009

Statement of Net Assets – Proprietary Funds – 2009

Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds –
2009

Statement of Cash Flows – Proprietary Funds – 2009

Statement of Net Assets – Fiduciary Funds – 2009

Notes to Financial Statements – 2009

REQUIRED SUPPLEMENTAL INFORMATION

Budgetary Changes – 2009

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

Budgetary Comparison Schedule – General Fund – 2009

Budgetary Comparison Schedule – Special Revenue Fund-Streets – 2009



CITY OF BAINBRIDGE ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009

This discussion and analysis of the City of Bainbridge Island financial results for the calendar and fiscal year ending December 31, 2009, is intended to provide a narrative discussion that will offer parties that read financial statements information to make informed decisions and draw relevant conclusions about the City's financial activities and position. Please read it in conjunction with the accompanying Transmittal Letter, Basic Financial Statements and Notes to the Financial Statements. All figures presented in this discussion and analysis are shown in thousands (000's) of dollars unless otherwise noted.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$118,683. Of this amount, \$6,466 may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net assets increased by \$3,116 primarily due to dramatic action taken by the City to reevaluate revenue estimates and substantial budgetary expenditure reductions including layoffs of 15 filled positions and elimination of 10 vacant positions and elimination of professional and community service contracts and several capital projects .

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$725, an increase/(decrease) of \$185 in comparison to the prior year.

Total revenues of the Governmental Funds increased/(decreased) by (\$1,226).

The City's total debt increased/(decreased) by (\$1,330) during the year. This change was primarily due to scheduled bond redemptions.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's Basic Financial Statements. The Financial Statements presented herein include all activities of the City using the Integrated Approach as prescribed by the Governmental Accounting Standards Board Statement No. 34.

Government-Wide Financial Statements

The **Government-Wide Financial Statements** are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. They present Governmental Activities and Business Type Activities separately. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt). Additionally, certain eliminations have been made with regards to interfund activity, payables and receivables.

The **Statement of Net Assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The **Statement of Activities and Changes in Net Assets** presents information showing how City's net assets changed during the most recent fiscal year. All current year's revenues and expenses are taken into account regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

In the **Statement of Net Assets** and the **Statement of Activities and Changes in Net Assets**, we distinguish the City's functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a portion of their costs through user fees and charges (business-type activities). The activities of these two distinctions are as follows:

Governmental activities - Most of the City's basic services are reported in this category, including General Government, Judicial, Police, Planning and Community Development and Public Works. Property taxes, sales and other taxes, user fees, interest income, franchise fees, and state and federal grants finance these activities.

Business-type activities - The City charges a fee to customers to cover all or most of the cost of certain services it provides. The City's Water system, Wastewater system, Storm and Surface Water Management system and Building and Development Services activities are reported in this category.

FUND FINANCIAL STATEMENTS

Unlike **Government-Wide Financial Statements**, the focus of **Fund Financial Statements** is directed to specific activities of the City rather than the City as a whole. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations. The City's fund financial statements are divided into three broad categories: Governmental Funds, Proprietary Funds and Fiduciary Funds.

Governmental Funds Financial Statements consist of a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances. These statements are prepared on a Modified-Accrual Basis of Accounting. In general, these statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can be easily converted to cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and buildings. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled as the fund balance. This generally indicates the amount that can be used to finance

the next year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the year. The balances and activities accounted for in governmental funds are also reported in the governmental activities columns of the Government-Wide Financial Statements.

The City presents, in separate columns, funds that are most significant to the City (Major Funds). All Other Governmental Funds are aggregated into a single column (Non-Major Funds).

Proprietary Funds Financial Statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets and a Statement of Cash Flows. These statements are prepared on an accounting basis similar to that used to prepare the Government-Wide Financial Statements. For financial reporting purposes, Proprietary Funds are grouped into Enterprise Funds and Internal Service Funds, although the City has no Internal Service funds at this time. The City uses Enterprise Funds to account for Business-Type Activities that charge fees to the customers for the use of specific goods or services. Balances and activities accounted for in the City's Enterprise Funds are also reported in the business-Type Activities columns of the Government-Wide Financial Statements.

The City presents, in separate columns, all Enterprise Funds. A Statement of Cash Flows is presented at the Fund Financial Statement level for Proprietary Funds, but no equivalent statement is presented in the Government-Wide Financial Statements for either Governmental Activities or Business-Type Activities.

Fiduciary Funds Financial Statements consist of a Statement of Fiduciary Net Assets. These assets are held by the City for other parties as an agent and cannot be used to finance City operations. The City is responsible for ensuring that the activities reported in Fiduciary Funds are based on their intended purposes. As noted earlier, Fiduciary Funds are presented in the Fund Financial Statements but are not reported in the Government-Wide Financial Statements.

Notes to the Financial Statements

The Notes provide additional information essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements.

Other Information

In addition to the Basic Financial Statements and accompanying Notes to the Financial Statements, this report also presents certain Required Supplementary Information concerning the City's budgetary comparisons. Required Supplementary Information can be found following the Notes to the Financial Statements. This report also contains certain schedules required by the Washington State Auditor's Office.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Overall, the City’s financial position has dramatically declined this past year. This required significant decreases in revenue estimates for both Governmental and Business Type Activities. The City’s overall financial positions and results of operations for the past two years are summarized below. This information is based on data in the Government-Wide Financial Statements:

Financial Position	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Cash and Cash Equivalents	1,704	1,630	1,402	4,888	3,106	6,518
Other Assets	2,763	2,935	4,594	5,160	7,358	8,095
Capital Assets	105,388	105,781	43,452	38,675	148,840	144,456
Total Assets	<u>\$109,855</u>	<u>110,346</u>	<u>49,448</u>	<u>48,723</u>	<u>159,303</u>	<u>159,070</u>
Other Liabilities	1,164	1,787	911	1,988	2,076	3,775
Long-Term Debt	25,200	26,491	13,344	13,237	38,544	39,728
Total Liabilities	<u>\$26,365</u>	<u>28,278</u>	<u>14,255</u>	<u>15,225</u>	<u>40,620</u>	<u>43,503</u>
Invested in Capital Assets net of debt	80,635	79,790	30,455	25,821	111,090	105,611
Restricted	1,127	1,516	-	221	1,127	1,737
Unrestricted	1,729	762	4,738	7,456	6,466	8,218
Total Net Assets	<u><u>\$83,490</u></u>	<u><u>\$82,068</u></u>	<u><u>\$35,193</u></u>	<u><u>\$33,499</u></u>	<u><u>\$118,683</u></u>	<u><u>\$115,567</u></u>

- In 2009 total net assets of the City increased/(decreased) \$3,116 (about 2.70%). Governmental Type net assets increased/(decreased) \$1,422 and Business Type assets increased/(decreased) \$1,694. The Governmental increases are primarily due to dramatic action taken by the City to reevaluate revenue estimates and substantial budgetary expenditure reductions, including layoffs of 15 filled positions and elimination of 10 vacant positions, professional and community service contracts, and several capital projects.

Operations	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Program Revenues						
Charges for Services	1,185	1,873	8,147	8,078	9,332	9,951
Operating Grants/Contributions	596	535	126	193	722	728
Capital Grants/Contributions	1,102	793	394	316	1,496	1,109
Total Program Revenues	2,883	3,201	8,668	8,586	11,551	11,788
General Revenues						
Property Taxes	6,912	6,753	-	-	6,912	6,753
All Other Taxes	7,998	8,580	-	-	7,998	8,580
Interest	38	87	111	151	149	238
Other Revenues	942	953	28	(8)	970	945
Total General Revenues	15,890	16,372	139	144	16,029	16,515
Program Expenses						
General Government	5,112	5,846	-	-	5,112	5,846
Judicial	651	658	-	-	651	658
Public Safety	3,665	4,598	-	-	3,665	4,598
Physical Environment	436	(1,142)	-	-	436	(1,142)
Transportation	3,138	3,581	-	-	3,138	3,581
Health and Human Services	412	452	-	-	412	452
Economic Environment	1,706	2,461	-	-	1,706	2,461
Culture and Recreation	417	1,030	-	-	417	1,030
Water	-	-	2,043	2,047	2,043	2,047
Sewer	-	-	2,382	2,135	2,382	2,135
Storm and Surface Water Management	-	-	1,865	1,751	1,865	1,751
Building and Development Services	-	-	2,711	2,865	2,711	2,865
Total Program Expenses	15,537	17,486	9,001	8,799	24,538	26,285
Excess/Deficiency	3,236	2,087	(194)	(69)	3,042	2,018
Other						
Transfers	(1,889)	(1,074)	1,889	1,074	-	-
Changes in Net Assets	1,347	1,013	1,695	1,004	3,042	2,018
Beginning Net Assets	\$82,068	\$86,106	\$33,499	\$32,974	\$115,567	\$119,080
Prior Period Adjustments	75	(543)	-	-	75	(543)
Ending Net Assets	\$83,490	\$82,068	\$35,193	\$33,499	\$118,683	\$115,567

GOVERNMENTAL ACTIVITIES

- In 2009 there was an increase/(decrease) in net assets related to Governmental Activities of \$1,422 compared to an increase/(decrease) of (\$4,038) the prior year. The most significant revenue component of the Governmental Activities is the tax base.

BUSINESS-TYPE ACTIVITIES

In 2009 there was an increase/(decrease) in net assets related to Business-Type Activities of \$1,694.

The City's Water Fund, Sewer Fund and Storm and Surface Water Fund all showed a modest balance of revenues over expenses. The Building and Development Services Fund showed a net income/(loss) of (\$1,918). The Building and Development Services activity recovered only 29% of its costs with its own revenues. This imbalance is expected to be mitigated in future years with recommended rate increases.

ANALYSIS OF BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

The **General Fund** balance increased/(decreased) \$152 due to the realignment of revenue estimates, expenditure reductions and decreased subsidies to the Street Fund. As a result, the General Fund ended the year with a positive/(deficit) fund balance of (\$48) as compared to (\$200) for 2008.

The **Street Fund** accounted for \$2,102 in street and road maintenance costs compared to \$3,639 in 2008. This represents a (42)% increase/(decrease) from the prior year. The Street Fund began 2009 with a positive/(deficit) fund balance of (\$184). That balance increased/(decreased) by \$113 to (\$71).

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget passed by the City Council anticipated an increase/(decrease) in the budgetary fund balance during the year of \$166. The actual was an increase/(decrease) of \$152. Significant economic challenges have faced the City and continue to challenge operations and capital well into 2009. To learn more about the City's budget process and economic challenges, see Note 1.D. and Note 16 in the Notes to the Financial Statements, Economic and Other Factors below and the Required Supplementary Information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City has invested \$148,840 in **CAPITAL ASSETS** (net of depreciation), an increase/(decrease) of \$4,382. Capital Assets held by the City at the end of the current and previous years are summarized as follows:

	Capital Assets (net of depreciation)					
	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	71,107	71,001	1,797	1,779	72,904	72,780
Buildings and Improvements	16,296	16,275	41	39	16,337	16,314
Improvements Other than Bldgs	4,122	4,119	-	-	4,122	4,119
Intangible Assets	880	880	32	32	912	912
Vehicles and Equipment	7,352	7,346	2,251	2,220	9,603	9,566
Infrastructure	21,819	21,819	38,513	38,385	60,332	60,204
Construction in Progress	5,048	3,548	14,670	9,228	19,718	12,776
Less: Depreciation	(21,236)	(19,206)	(13,853)	(13,008)	(35,088)	(32,214)
Totals	105,388	105,781	43,452	38,677	148,840	144,458

Approximately 71% of this investment is related to **GOVERNMENTAL ACTIVITIES** and includes **INFRASTRUCTURE, BUILDINGS, EQUIPMENT** and **LAND**.

Additional information about the City's Capital Assets is presented in Note 6 in the Notes to the Financial Statements.

LONG-TERM OBLIGATIONS

At the end of the current year the City had long-term debt related to governmental activities of \$25,335. This was an increase/(decrease) of \$(1,415) from the previous year. Of the debt outstanding at the end of 2009, 100% was backed by the full faith and credit of the City. The City makes a general pledge on its tax levy for all bonded debt service and, for utility bonds, an additional pledge of all Proprietary Fund revenue, after operating and maintenance expenses. The total amount of debt related to Business-Type Activities was \$13,344. This was an increase/(decrease) from the previous year of \$85.

The debt position of the City is summarized below and in Note 9 in the Notes to the Financial Statements.

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
General Obligation Bonds	23,580	25,110	1,055	1,350	24,635	26,460
Intergovernmental Loans	534	304	11,942	11,526	12,475	11,830
Land Purchase Contracts	774	774	-	-	774	774
Capital Leases	-	61	-	-	-	61
Compensated Absences	447	501	347	383	794	883
Totals	25,335	26,750	13,344	13,259	38,679	40,009

ECONOMIC AND OTHER FACTORS

The 2009 budget was passed in December 2008. Fourth quarter of 2008 was beginning to show signs of a potential economic slowdown and by April of 2009 the recession was in full force for the City and the region. Material operating and capital expenditure reductions, approximately \$2,500 and \$7,500 respectively, were required to meet new projected revenues in governmental and enterprise funds.

General Fund Revenues for 2009 were \$1,058 (7%) under the revised budget. Street Fund Revenues were \$195 (12%) under the revised budget. Real Estate Excise Tax Fund Revenues were \$126 (15%) over the revised budget but \$374 (28%) under the original budget estimates. Revenues in the City’s Waterworks Utility were \$1,406 (15%) under budget due a very wet year and to connection and system participation fees which lagged due to new construction slowdowns. Continuing increases in the future rates for the Utilities, specifically Sewer for major capital projects and SSWM for regulatory issues will be necessary to sustain those funds. Building and Development revenues were \$827 (67%) over the revised budget but \$341 (29%) under the original budget estimates with the fund still requiring substantial operating subsidies from the General Fund. It is expected that there will be general revenue challenges through the years 2010 and into 2011 but the dramatic action taken by the City to reevaluate revenue estimates and make substantial budgetary expenditure reductions has been more than sufficient to balance operations.

The downturn continued through January and February of 2009 requiring the City to reduce 2009 projected governmental revenues by over \$2,500 and to begin substantial operating cost reductions. This included the layoff of 14 full time positions, a 2009 work furlough of 10 days for non sworn positions, a work week reduction for 9 staff members, holding open numerous vacant positions, reductions and deferrals of capital projects, reductions in professional service contracts and potential sale of surplus property. The economic downturn also necessitated a short term interfund loan of \$600 from the Water Fund to the General Fund, in anticipation of April and May 2009 tax receipts. By the end of April 2009 the City’s economic situation had stabilized but reductions remained in place and continued monitoring of all City revenues, operational expenditures and capital expenditures will be necessary through year end and into 2010.

CITY OF BAINBRIDGE ISLAND

Statement of Net Assets

As of December 31, 2009

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Current ASSETS			
Cash and Cash Equivalents	1,703,856	1,401,717	3,105,573
Receivables - Net	1,758,612	542,137	2,300,749
Due from other Funds	-	-	-
Due from other Governments	355,258	89,396	444,655
Inventories	66,569	68,982	135,550
Prepays	157,132	-	157,132
Non-Current ASSETS			
Deferred Charges	394,610	9,092	403,701
Special Assessments - Deferred	31,279	3,884,738	3,916,018
Capital Assets - Net of Accumulated Depreciation	28,352,963	26,984,668	55,337,631
Land	71,106,978	1,796,865	72,903,843
Construction in Progress	5,047,952	14,670,367	19,718,318
Other Capital Assets	880,000	-	880,000
Total ASSETS	109,855,208	49,447,962	159,303,170
LIABILITIES			
Current LIABILITIES			
Accounts Payable	599,771	454,689	1,054,460
Accrued Expenses	559,725	254,344	814,069
Due to Other Funds	-	-	-
Deferred Revenue	5,001	202,333	207,334
Other Current Liabilities	-	-	-
Non-Current LIABILITIES			
Compensated Absences	447,351	347,111	794,463
Due Within One Year	1,631,650	950,119	2,581,769
Due in More Than One Year	23,121,404	12,046,774	35,168,178
Total LIABILITIES	26,364,903	14,255,370	40,620,273
NET ASSETS			
Invested in Capital Assets - Net of Related Debt	80,634,838	30,455,007	111,089,845
Restricted for:			
Public Work Arts	267,108	-	267,108
Civic Improvement	180,287	-	180,287
Affordable Housing	234,290	-	234,290
Debt Service - GO Bond	23	-	23
Construction-Pritchard Park/WWTP	-	-	-
Construction-Bond Proceeds	444,950	-	444,950
Unrestricted	1,728,810	4,737,585	6,466,395
Total Net Assets	83,490,305	35,192,592	118,682,898

The accompanying notes are an integral part of this financial statement.

CITY OF BAINBRIDGE ISLAND
Statement of Activities
For the Year Ended December 31, 2009

	Net Expense/Revenue and Changes in Net Assets			
	Primary Government			
	Governmental Activities	Business-Type Activities	Total	
Primary Government:				
Governmental Activities:				
General Government	4,047,478	848,959	22,196	-
Judicial	650,737	160,318	-	-
Public Safety	3,664,897	106,364	65,497	-
Physical Environment	436,173	1,928	192	-
Transportation	3,138,243	66,214	506,151	367,058
Health and Human Services	412,184	-	-	-
Economic Environment	1,706,181	1,146	1,320	-
Culture and Recreation	416,874	-	500	735,314
Interest on Long Term Debt	1,064,437	-	-	-
Total Governmental Activities	15,537,206	1,184,929	595,857	1,102,371
Business-Type Activities:				
Water	2,042,788	2,355,037	-	33,671
Sewer	2,382,293	2,562,673	-	360,099
Storm and Surface Water Management	1,865,033	2,437,181	126,403	-
Building and Development Services	2,711,577	792,531	-	-
Total Business-Type Activities	9,001,690	8,147,423	126,403	393,770
Total Primary Government	24,538,897	9,332,352	722,259	1,496,141
General Revenues:				
Property Taxes Levied for General Purpose	6,373,106	-	-	6,373,106
Property Taxes Levied for Other Purposes	538,562	-	-	538,562
Sales and Use Taxes	2,980,471	-	-	2,980,471
Business and Occupation Taxes	4,072,150	-	-	4,072,150
Excise Taxes	945,356	-	-	945,356
Penalties and Interest	6,829	48,157	-	54,987
Unrestricted Investment Earnings	31,094	62,863	-	93,957
Grants and Contributions not Restricted to Specific Program	272,776	-	-	272,776
Miscellaneous	669,267	28,426	-	697,693
Transfers	(1,888,700)	1,888,700	-	-
Total General Revenues, Extraordinary, Special Items, and Transfers	14,000,912	2,028,147	-	16,029,059
Change in Net Assets	1,346,862	1,694,052	-	3,040,914
Prior Period Adjustments	75,250	-	-	75,250
Net Assets - Beginning	82,068,193	33,498,540	-	115,566,733
Net Assets - Ending	83,490,305	35,192,592	-	118,682,898

CITY OF BAINBRIDGE ISLAND
Balance Sheet Statement
Governmental Funds
As of December 31, 2009

	General	Streets	G.O. Bonds	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	696,213	777	925	1,005,942	1,703,856
Receivables - Net	4,214	1,790	-	8,430	14,434
Due from other Funds	-	-	-	-	-
Unmatured Assessments	-	-	-	31,279	31,279
Total ASSETS	<u>700,427</u>	<u>2,567</u>	<u>925</u>	<u>1,045,651</u>	<u>1,749,570</u>
Total Assets	<u><u>700,427</u></u>	<u><u>2,567</u></u>	<u><u>925</u></u>	<u><u>1,045,651</u></u>	<u><u>1,749,570</u></u>
LIABILITIES					
Accounts Payable	409,243	24,851	902	162,359	597,354
Accrued Expenses	335,670	46,812	-	477	382,959
Due to Other Funds	-	-	-	-	-
Deferred Revenue	3,211	1,790	-	39,710	44,710
Other Current Liabilities	-	-	-	-	-
Total LIABILITIES	<u>748,124</u>	<u>73,453</u>	<u>902</u>	<u>202,546</u>	<u>1,025,024</u>
FUND BALANCES					
Unreserved	(47,696)	(70,886)	23	458,227	339,668
Capital Construction	-	-	-	384,878	384,878
Total FUND BALANCES	<u>(47,696)</u>	<u>(70,886)</u>	<u>23</u>	<u>843,105</u>	<u>724,546</u>
Total Liabilities and Fund Balances	<u>700,427</u>	<u>2,567</u>	<u>925</u>	<u>1,045,651</u>	<u>1,749,570</u>
Variance	-	-	-	-	-
Amounts reported for governmental activities in the Statement of Net Assets are different because of the following:					
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation					105,387,892
Inventory purchases used in governmental activities, including prepayments, are not financial resources and therefore are not reported in the funds					223,700
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:					
Unamortized Debt Issuance Costs					394,610
Accounts Receivable - earned but unavailable					2,099,436
Deferred Revenue - Not available to pay current-period expenditures					39,710
Accrued expenses and compensated absences are not due and payable in the current period and therefore are not reported in the funds					(626,534)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds					(24,753,054)
Net Assets of Major Governmental Activities					<u><u>83,490,305</u></u>

CITY OF BAINBRIDGE ISLAND
Statement of Revenues, Expenditures, and changes in Fund Balance
Governmental Funds
For the year ended December 31, 2009

	General	Streets	G.O. Bond	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	6,296,050	-	538,562	-	6,834,612
Other Taxes	6,548,518	465,826	-	1,053,406	8,067,750
Fees and Fines	165,488	-	-	-	165,488
Licenses and Permits	363,985	23,757	-	-	387,742
Intergovernmental	369,189	504,271	-	815,367	1,688,827
Charges for Services	589,567	833	-	1,275	591,675
Interest	15,380	-	-	15,714	31,094
Other Revenues	80,084	339,025	-	9,680	428,789
Total REVENUES	14,428,260	1,333,711	538,562	1,895,442	18,195,976
EXPENDITURES					
General Government	3,294,672	394,301	-	4,287	3,693,260
Judicial	649,177	-	-	-	649,177
Public Safety	3,546,162	7,415	-	-	3,553,578
Physical Environment	382,147	43,416	-	-	425,563
Transportation	-	1,653,417	-	-	1,653,417
Health and Human Services	412,184	-	-	-	412,184
Economic Environment	1,396,693	-	-	306,861	1,703,554
Culture and Recreation	368,484	-	-	-	368,484
Debt Service - Principal	246,261	-	1,524,855	-	1,771,117
Debt Service - Interest	58,210	3,560	1,050,874	-	1,112,644
Capital Outlay	50,289	-	-	1,558,576	1,608,866
Total EXPENDITURES	10,404,280	2,102,108	2,575,729	1,869,725	16,951,842
Excess (deficiency) of Revenue over Expenditures	4,023,980	(768,397)	(2,037,167)	25,717	1,244,133
OTHER FINANCING SOURCES/USES					
Disposition of capital assets	44,625	19,347	-	127,462	191,434
Proceeds of general long term debt	-	449,632	-	-	449,632
Refunding Bonds Issued	-	-	5,220,000	-	5,220,000
Payment to Bond Refunding Escrow Agent	-	-	(5,358,000)	-	(5,358,000)
Premium on Refunding Bonds Issued	-	-	251,155	-	251,155
Transfers - In	-	337,500	1,876,100	768,202	2,981,802
Transfers - Out	(3,916,502)	-	-	(954,000)	(4,870,502)
Total OTHER FINANCING SOURCES/USES	(3,871,877)	806,479	1,989,255	(58,336)	(1,134,478)
Net Change in Fund Balance	152,103	38,082	(47,912)	(32,618)	109,655
Fund Balances -- Beginning	(199,800)	(184,219)	47,935	875,724	539,640
Prior Period Adjustments	-	75,250	-	-	75,250
Fund Balances -- Ending	(47,696)	(70,886)	23	843,105	724,546

CITY OF BAINBRIDGE ISLAND
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2009

Net change in fund balances -- total governmental funds		109,655
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.		
Expenditures for capital assets	1,608,866	
Less: current year depreciation	(2,029,545)	
		(420,679)
Revenue in the Statement of Activities that do not provide current financial resources are reported as revenues in the funds.		
		(4,955,096)
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.		
Bond Proceeds	(1,049,632)	
Redemption of Long-Term Debt	7,631,117	
		6,581,484
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
		31,498
Change in Net Assets of Governmental Activities		1,346,862

The accompanying notes are an integral part of this financial statement.

CITY OF BAINBRIDGE ISLAND
Statement of Net Assets
Proprietary Funds
As of December 31, 2009

	Business-Type Activities - Enterprise Funds				Total
	Water	Sewer	Storm and Surface Water Management	Building and Development Service	
ASSETS					
Current					
Cash and Cash Equivalents	913,547	185,790	302,332	48	1,401,717
Receivables - Net	65,620	363,646	112,341	530	542,137
Interfund Loans Receivable	3,000,000	-	-	-	3,000,000
Due from other Governments	-	-	89,396	-	89,396
Inventories	56,125	2,989	9,868	-	68,982
Non-Current					
Deferred Charges	-	9,092	-	-	9,092
Special Assessments - Deferred	-	3,884,738	-	-	3,884,738
Capital Assets - Net of Accumulated Depreciation	11,309,303	7,219,012	8,452,670	3,683	26,984,668
Land	637,436	834,874	324,555	-	1,796,865
Construction in Progress	453,161	13,846,440	370,766	-	14,670,367
Total ASSETS	<u>16,435,193</u>	<u>26,346,580</u>	<u>9,661,929</u>	<u>4,261</u>	<u>52,447,962</u>
LIABILITIES					
Current					
Accounts Payable	32,345	310,359	38,791	73,193	454,689
Accrued Expenses	34,802	104,275	51,369	63,899	254,344
Interfund Loans Payable	-	3,000,000	-	-	3,000,000
Deferred Revenue	-	-	-	202,333	202,333
Compensated Absences	150,947	73,593	45,065	77,506	347,111
Non-Current					
Due Within One Year	-	899,416	50,703	-	950,119
Due in More Than One Year	-	11,295,775	750,999	-	12,046,774
Total LIABILITIES	<u>218,095</u>	<u>15,683,417</u>	<u>936,927</u>	<u>416,931</u>	<u>17,255,370</u>
NET ASSETS					
Invested in Capital Assets - Net of Related Debt	12,399,901	9,705,134	8,346,289	3,683	30,455,007
Restricted for:					
Construction-WWTP	-	-	-	-	0
Unrestricted	3,817,197	958,028	378,712	(416,352)	4,737,585
Total Net Assets	<u>16,217,098</u>	<u>10,663,162</u>	<u>8,725,002</u>	<u>(412,670)</u>	<u>35,192,592</u>

CITY OF BAINBRIDGE ISLAND
Statement of Revenues, Expenditures, and changes in Net Assets
Proprietary Funds
For the year ended December 31, 2009

	Water	Sewer	Storm and Surface Water Management	Building & Development Service	Totals
REVENUES					
Operating REVENUES					
Charges for Services	2,343,054	2,562,673	2,437,181	792,531	8,135,440
Miscellaneous	11,983	-	126,403	-	138,386
Total REVENUES	<u>2,355,037</u>	<u>2,562,673</u>	<u>2,563,584</u>	<u>792,531</u>	<u>8,273,826</u>
EXPENSES					
Operating EXPENSES					
Personal Services	918,474	1,096,010	1,177,954	1,484,373	4,676,812
Special Item	-	-	-	530	530
Contractual Services	280,132	144,436	146,903	498,932	1,070,404
Utilities	103,875	155,031	57,557	10,769	327,232
Repairs and Maintenance	54,547	83,811	28,695	8,909	175,962
Miscellaneous Expense	7,637	18,488	1,560	5,734	33,418
Other Supplies and Expenses	342,814	388,584	236,390	27,504	995,291
Insurance Claims and Expenses	21,265	30,382	12,515	178,190	242,352
Depreciation	298,075	351,059	193,982	1,636	844,753
Total EXPENSES	<u>2,026,820</u>	<u>2,267,800</u>	<u>1,855,557</u>	<u>2,216,577</u>	<u>8,366,754</u>
Operating Income (Loss)	328,218	294,873	708,027	(1,424,045)	(92,928)
OTHER SOURCES/USES					
Non-Operating Revenues and Expenses:					
Interest and Investment Revenue	52,733	10,131	-	-	62,863
Miscellaneous Revenue	27,741	48,103	-	740	76,584
Interest Expense	(15,968)	(114,493)	(9,476)	-	(139,937)
Settlement Expense	-	-	-	(495,000)	(495,000)
Total Non-Operating Revenues and Expenses:	<u>64,505</u>	<u>(56,259)</u>	<u>(9,476)</u>	<u>(494,260)</u>	<u>(495,490)</u>
Net income/(loss) before contributions and transfers	392,723	238,614	698,551	(1,918,305)	(588,418)
Capital Contributions					
Transfers-In	33,671	360,099	-	-	393,770
Transfers-Out	-	-	-	1,888,700	1,888,700
Change in Net Assets	<u>426,394</u>	<u>598,713</u>	<u>698,551</u>	<u>(29,605)</u>	<u>1,694,052</u>
Net Assets - Beginning	15,790,704	10,064,449	8,026,451	(383,064)	33,498,540
Prior Period Adjustments					
Total Net Assets - Ending	<u>16,217,098</u>	<u>10,663,162</u>	<u>8,725,002</u>	<u>(412,670)</u>	<u>35,192,592</u>

CITY OF BAINBRIDGE ISLAND
Statement of Cash Flows
Proprietary Funds

For the Year Ended December 31, 2009

	Business-Type Activities					Total
	Water	Sewer	Storm and Surface Water Management	Building and Development Services		
Cash Flows from Operating Activities						
Receipts from Customers	2,400,068	2,582,671	2,580,912	792,501	8,356,153	
Payments to Suppliers	(919,177)	(1,403,235)	(476,823)	(708,185)	(3,507,419)	
Payments to Employees	(916,562)	(1,084,077)	(1,170,029)	(1,502,488)	(4,673,156)	
Internal Activity - Payments to Other Funds	(52,318)	(95,414)	(304,187)	-	(451,918)	
Other Receipts/Payments	12,686	139	123,413	(495,530)	(359,292)	
Net Cash Provided (Used) by Operating Activities	524,697	85	753,287	(1,913,701)	(635,633)	
Cash Flows from Non-Capital Financing Activities						
Operating Subsidies and Transfers to Other Funds	-	-	-	1,888,700	1,888,700	
Cash Flows from Capital and Related Financing Activities						
Capital Contributions	33,671	177,879	-	-	211,550	
Purchases of Capital Assets	(304,153)	(4,981,147)	(336,192)	-	(5,621,493)	
Principal Paid on Capital Debt	(107,854)	(833,816)	(86,705)	-	(1,028,376)	
Interest Paid on Capital Debt	(15,968)	(109,493)	(9,476)	-	(134,937)	
Other Receipts and/or Payments	22,574	1,731,137	(7,786)	25,049	1,770,975	
Net Cash Provided (Used) by Capital and Related Financing Activities	(371,730)	(4,015,441)	(440,159)	1,913,749	(2,913,580)	
Cash Flows from Investing Activities						
Interest and Dividends	52,733	10,131	-	-	62,863	
Interfund Loans Issued	(3,000,000)	3,000,000	-	-	-	
Net Cash Provided (Used) by Investing Activities	(2,947,267)	3,010,131	-	-	62,863	
Net Increase/(Decrease) in Cash and Cash Equivalents	(2,794,301)	(1,005,225)	313,128	48	(3,486,350)	
Balances - Beginning of the Year	3,707,848	1,191,015	(10,796)	-	4,888,067	
Balances - End of the Year	913,547	185,790	302,332	48	1,401,717	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities						
Operating Income/(Loss)	328,218	294,873	708,027	(1,424,045)	(92,928)	
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities						
Depreciation	298,075	351,059	193,982	1,636	844,753	
Settlements	-	-	-	(495,000)	(495,000)	
Change in Assets and Liabilities:						
Receivables - Net	57,014	361,278	143,731	(30)	561,994	
Inventories	702	139	(2,989)	-	(2,148)	
Accounts Payable	(108,907)	(582,504)	6,797	21,853	(662,760)	
Other Current Liabilities	(52,318)	(95,414)	(304,187)	-	(451,918)	
Accrued Expenses	1,912	11,934	7,925	(18,115)	3,656	
Net Cash Provided by Operating Activities	524,697	341,365	753,287	(1,913,701)	(294,353)	

The accompanying notes are an integral part of this financial statement.

CITY OF BAINBRIDGE ISLAND
Statement of Net Assets
Fiduciary Funds
As of December 31, 2009

ASSETS	
Cash and Cash Equivalents	174,707
Receivables:	
Receivables - Net	2,319
Due from Other Funds	-
Total ASSETS	<u>177,027</u>
LIABILITIES	
-	
Accounts Payable	14,541
Deferred Revenue	2,319
Other Current Liabilities	160,167
Refunds Payable to Others	-
Total LIABILITIES	<u>177,027</u>

The accompanying notes are an integral part of this financial statement.

CITY OF BAINBRIDGE ISLAND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Bainbridge Island 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. All values reported in the notes are in thousands (000's) unless otherwise noted.

A. Reporting Entity

The City of Bainbridge Island was incorporated on September 18, 1947, under the name City of Winslow and operated under the laws of the State of Washington applicable to a Noncharter Code City with a Mayor-City Council form of government until June 10, 2009. At that time the Council/Manager form of government was officially adopted pursuant to an election held May 19, 2009. From January 1, 2009 through June 9, 2009, a part time Mayor and seven part-time City Council members led Bainbridge Island. On June 10, 2009, pursuant to State law, the Mayor became the eighth Council member and from that date through December 31, 2009, eight part-time City Council members led the City. Council members are elected to four-year terms except for transition terms and each year select a Council member to act as Mayor. The City Manager is appointed by the Council for an indefinite term. The City is a general-purpose government and provides for the following major types of services: police, water supply/treatment/distribution, sewage collection/treatment, storm water (drainage) collection, street maintenance, planning and zoning, parks and boat docks, judicial and general administration. Other local governments provide public education, fire suppression, library and most park services. In accordance with GAAP the financial statements represent those activities of the City—the primary government. The City has no component units and is not involved in nor does it have an equity interest in any joint ventures.

B. Government-Wide and Fund Financial Statements

The Government-Wide Financial Statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the City. Generally, 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.

Separate fund financial statements are provided for Governmental Funds, Proprietary Funds, and Fiduciary Funds, even though the latter are excluded from the Government-Wide Financial Statements. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the relevant fund financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment; indirect costs are those costs that are not directly related to a specific function or segment but are indirectly related to multiple functions or services (such as administrative and human resources costs). City policy is to allocate indirect costs to all operating funds based on relative benefits received. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items that are inappropriate for inclusion among program revenues are reported instead as general revenues.

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 full-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 the related

cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and a conservative interpretation of the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available and expenditures generally are recorded when a liability is incurred.¹ The City considers revenues to be available when they are received.

The City of Bainbridge Island reports the following major **Governmental Funds:**

General Fund

The General Fund is the operating fund of the City. It accounts for all financial resources of the General Government, except those required to be accounted for in another fund.

Streets Fund

The Streets Fund accounts for the non-capital transportation-related activities of the City. It includes sub-funds for access streets, arterial streets and parking.

General Obligation Bond Fund

This fund accounts for the accumulation of resources for, and the payment of, general long-term debt principle and interest.

The City reports the following major **Proprietary Funds:**

Water Fund

The Water Fund accounts for all activities related to providing water services to City water customers, primarily located in the historic Winslow area. The Water Fund includes sub-funds for operations, debt-service and capital construction.

Sewer Fund

The Sewer Fund accounts for all activities related to providing wastewater (sewer) services to City sewer customers, primarily located in the historic Winslow area. The Sewer Fund includes sub-funds for operations, debt-service and capital construction.

Storm & Surface Water Management Fund

The Storm & Surface Water Management Fund accounts for all activities related to providing storm drainage and related services to the island wide community. The Storm & Surface Water Management Fund includes sub-funds for operations, debt-service and capital construction.

The City structures its water, sewer, and storm & surface water management utilities as separate funds in order to separately track the costs and related revenues. Legally, these three funds constitute a single, unified Waterworks Utility.

Building & Development Services Fund

The City classifies its Building & Development Services Fund as an Enterprise Fund because it is expected that a majority of the costs of supporting land use and building permitting will be recovered from user charges. The Building & Development Services Fund consists of two sub-funds for these activities that separately track the costs and related revenues.

The City maintains one **Fiduciary Fund:**

This fund is an agency fund, is custodial in nature (assets always equal liabilities) and does not involve the measurement of results of operations. Within this fund are a number of sub-funds representing monies on which the

¹ Debt Service expenditures and expenditures related to compensated absences and claims and judgments are recorded when the payment is due rather than when incurred.

City has either no claim or has a junior claim to some other third party. Included are construction retainage accounts and performance bonds, School Impact Fees held for the Bainbridge Island School District and money held in transit under three party contracts. The City does not have any endowments or permanent funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, 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. Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated for the Government-Wide Financial Statements. The major exception to this general rule is the charging of economic (interfund) rent to the City's Streets and all Proprietary Funds to reimburse the General Fund for the cost of owning and operating the shared facilities of City Hall and the Public Works yard. This interfund rent is considered a "quasi-external transaction" and is allowed under GAAP as though the rent were paid to an unrelated party (the government-to-government charges have been eliminated in accordance with GAAP). The only other exception to this general rule is the payment and recording of City Business and Occupation and Utility Taxes on the City's own Water, Sewer, and Storm and Surface Water Management Utilities.

Amounts reported as program revenues include charges to customers, operating grants and contributions, and capital grants and contributions (including special assessments). Internally dedicated resources are reported as General Revenues rather than Program Revenues. General revenues include all taxes.

Proprietary Funds distinguish operating revenues and expenses from non-operating revenue and expenses. 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 City's Proprietary Funds are user fees for monthly services, connection charges paid by new users, and permit fees paid for processing regulatory permits and approvals. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation of Capital Assets. All revenues 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. Budgetary Information

1. Scope of Budget

Budgets are adopted at the fund level for all funds on the modified accrual basis of accounting, which is consistent and in compliance with GASB 34 reporting. Expenditures are limited to the following: the total appropriated for the current year by fund total; the unexpended balances of a preceding budget; funds from the issuance of long-term debt; funds in excess of estimated revenue when authorized by Ordinance; and expenditures required for emergencies.

2. Procedures for Adopting the Original Biennial Budget

The City's budget procedures consistent with RCW² 35.33 are as follows:

- a. Prior to the second Monday in September of an even year, the Finance Director requests all department heads to prepare detailed estimates of revenue and expenditures for the next fiscal year and that they be filed with the Finance Director by the fourth Monday in September.
- b. The Finance Director presents estimates to the mayor for modification, revision or addition. These estimates set forth the complete financial program, showing expenditures requested by each department and sources of revenue by which each program is proposed to be financed.

² "RCW" refers to the Revised Code of Washington as published by the Statute Law Committee.

- c. Revenue estimates and expenditure requests are provided to the City Council by the first business day in October.
- d. The Mayor prepares the preliminary budget and message, files it with the City Clerk, and delivers it to the City Council no later than 60 days before the ensuing fiscal year.
- e. The City Council holds public hearings on taxes and the proposed budget, proposes and makes adjustments and adopts a balanced final budget prior to December 31.

3. Amending the Budget

The Mayor is authorized to transfer individual appropriations within any department during the current fiscal year. Any revisions that transfer appropriations between departments, alter the total expenditures of a fund in excess of resources, or may affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council. When the City Council determines that it is in the best interest of the City to make any of the stated revisions, it must do so by ordinance approved by a simple majority.

4. Deficit Fund Equity

As of December 31, 2009, two funds of the City ended with deficit fund equity: the General Fund, (\$48) and the Streets Fund, (\$71). These deficits are expected to be eliminated in fiscal year 2010 by increased revenues and further operating budget cuts.

D. Assets, Liabilities and Equities

The City's significant assets, liabilities and equities are described in the notes that follow.

1. Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. The City considers cash and cash equivalents to include cash on hand, demand deposits, and all short-term investments with original maturities of three months or less from date of acquisition. At December 31, 2009, the City was holding \$3,223 (including \$177 in Fiduciary Funds) in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents. Interest on these investments is distributed to various funds proportional to their cash balances. At December 31, 2009, the City was not holding any customer deposits.

2. Receivables

Taxes receivable are not recognized on the fund financial statements; although they are often measurable, the City cannot tell when they might be available. Levy rates for property taxes are adopted in November of each year but are not recognized as a receivable until the following year, when the amounts are legally levied and due and the City has a legal claim to the taxpayers' resources. Taxes receivable are recognized together with the related revenue adjustment on the Government-Wide Financial Statements. As of December 31, 2009 and 2008, the City had taxes receivable of \$1,411 and \$1,400 respectively.

Special Assessments are recorded in special assessment registers when levied, in the Local Improvement District (LID) Debt Service Fund for regular LIDs and in the Enterprise Fund for Utility LIDs. As of December 31, 2009 and 2008, the City had \$1 and \$2 respectively in delinquent Special Assessments receivable compared to total cash of \$43 and \$35 respectively in its LID Debt Service Fund.

The City recognizes as receivables only those fines or forfeits that are on a court-ordered time payment plan or which have been sent to collection. This is partly because the other amounts that have been levied are still subject to adjudication and possible commutation and partly because the State's computer system used by the City converts the amounts owed to the amounts set by the State. The amount recognized for 2009 is \$1,306 (\$1,055 considered uncollectible) compared to \$1,277 (\$1,022 considered uncollectible) for 2008.

Customer Accounts Receivable, including Utility Fund receivables, consist of amounts owed from private individuals or organizations for goods and services rendered, including amounts owed for which billings have not yet been prepared.

Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “Interfund Loans Receivable/Payable”. As of fiscal year end 2009 there was a \$3,000 interfund loan to the Sewer Fund from the Water Fund outstanding for completion of the Wastewater Treatment Plant Upgrade project due to legal actions taken by the Bainbridge Rate Payers Alliance. For fiscal year end 2008 the City had no interfund loans or advances outstanding. The City also has reimbursement Grants and other receivables from the State, Federal and local governments. Those amounts totaled \$355 and \$319 for fiscal years 2009 and 2008 respectively.

3. Inventories

Inventories consist of expendable supplies held for consumption. Costs are recorded as expenditures at the time of use or during the year-end count process. Inventories are valued by the Normal Average Cost method, which uses a weighted average cost for items in inventory rather than actual cost for each specific item.

4. Restricted Assets and Liabilities

These accounts contain resources restricted for construction in Enterprise Funds. The current portion of related liabilities is shown as Payables from Restricted Assets. The Restricted Assets of the combined Waterworks Utility Fund are composed of Cash and Investments – Construction of \$0 in 2009 and \$221 in 2008.

5. Capital Assets

Capital Assets, which include Property, Plant, Equipment and Infrastructure Assets (e.g. roads, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the Government-Wide Financial Statements.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5 and an estimated useful life in excess of one year. These assets are recorded at historical cost or estimated historical cost. Donated Capital Assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for Capital Assets and Improvements are capitalized as projects are constructed. Interest actually incurred during the construction phase of the Capital Assets of Business-Type Activities is included as part of the capitalized value of the assets constructed.

Property, Plant, and Equipment is depreciated using the straight-line method over the following estimated useful lives:

Type of Asset	Years
Computer Systems & Equipment	5 to 10
Light and Heavy Vehicles, Equipment	10
Police Vehicles	3
Buildings & Improvements	40
Roads – Unpaved and Paved	2 and 25
Sewage Treatment Plant	30
Water & Sewer Mains	66
Other Utility Infrastructure	10 to 20

Further detail is provided at Note No. 6 – Capital Assets.

7. Compensated Absences

Compensated absences are absences for which employees will be paid. For the City, those absences are vacation, sick leave, accrued compensating time off for overtime hours worked and time spent on standby.

Vacation pay may be accumulated up to 320 hours and is payable upon resignation, retirement or death. Compensating time off may be taken at any time or will be paid out at the employee’s request. Standby time represents compensating time off for employees who are required to be available on standby during non-working hours. Floating holidays represent 1) holidays worked by law enforcement officers that may subsequently be taken on a make-up basis and 2) one floating holiday per City employee. Floating holidays carried into a future year must be used before regular vacation time, and are payable upon resignation or termination.

Sick leave may accumulate up to 1040 hours. Upon resignation or retirement, any outstanding sick leave is lost. Accumulations of over 1040 hours are paid down annually at one-half the employee’s current rate of pay. Because there is no commitment to pay out accrued but unpaid management leave, wellness time or sick leave, they are not shown as liabilities.

Total liability for compensated absences as of December 31, 2009 and 2008 is as follows:

	2009	2008
Vacation	\$632	\$683
Compensating Time	76	90
Standby Time	21	17
Floating Holidays	65	93
Total	\$794	\$883

8. Other Current Liabilities

These accounts consist of accrued wages and accrued employee benefits.

9. Long-term Debt

See Note No. 9 – Debt and Leases.

10. Deferred Revenues

This account includes amounts recognized as receivables but not revenues in Governmental Funds because the revenue recognition criterion has not been met.

11. Fund Reserves and Designations

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets:

- The Governmental Funds Balance Sheet includes reconciliation between Fund Balance – Total Governmental Funds and Net Assets—Governmental Activities as reported in the Government-Wide Statement of Net Assets.

B. Explanation of certain differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities:

- The Governmental Funds' Statement of Revenues, Expenditures and Changes in Fund Balances includes reconciliation between net changes Fund Balances – Total Governmental Funds and Changes in Net Assets of Governmental Activities as reported in the Government-Wide Statement of Activities.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

NOTE 4 – DEPOSITS AND INVESTMENTS

A. Deposits

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

B. Investments

Washington State Law limits the types of investments into which the City may place funds. Allowable investments include U.S. Government obligations, State and local government obligations, banker's acceptances and deposits in Washington State financial institutions. All funds were invested in either the Washington State Treasurer's Investment Pool or the Kitsap County Treasurer's Investment Pool and are marked to market monthly by those agencies. Both pools are non-rated. On the City's balance sheet, these pool investments are considered cash equivalents. As a matter of policy, the City does not use reverse repurchase agreements (because of the difficulty in perfecting collateral) and also does not invest in derivatives (because of the difficulty in assessing risk). The City has no investments subject to risk categorization. At December 31, 2009, the City held the following investments not subject to categorization:

Investment in State Treasurer's Investment Pool *	\$ 371
Investment in Kitsap County Treasurer's Investment Pool *	2,253
Total Investments *	\$2,624

* Investments in the above investment pools are shown on the City's balance sheet as cash equivalents because they can be withdrawn on short notice.

Because the City's pool investments may be withdrawn in their entirety on less than 24 hours' notice, they are considered to have nominal credit risk. Because market value is equal to book value, there are no investment gains or losses that are excluded from the net earnings.

NOTE 5 – PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed on or before the 10th of the month following collection.

Property Tax Calendar

January 1

Taxes are levied and become an enforceable lien against properties

February 14

Tax bills are mailed

April 30

First of two equal installment payments is due

May 31

Assessed property value is established for next year's levy at 100 percent of market value

October 31

Second installment is due

Property tax revenues are recognized when cash is collected. The amount of taxes receivable at year-end that would be collected and available in time to pay liabilities of the current period is immaterial. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible since a priority lien affixes to the property when the taxes are levied.

In Washington, cities may levy up to \$3.60 per \$1,000 of assessed valuation for General Governmental Services, subject to three limitations:

1. RCW 84.55.010 limits the growth of regular property taxes to a percentage per year after adjustments for new construction. Historically, that limit had been 6 percent per year. In November 2001, State Initiative Bill No. 747 was approved by the voters and changed the limit from a flat 6 percent to the lower of 1 percent or the percentage change in the implicit price deflator for personal consumption expenditures. This change affects 2002 and future years. This limit is mitigated for the City by RCW 84.55.092 which allows a local taxing district (including the City), with a vote of the people, to tax up to the amount it would have been allowed had it raised taxes to the maximum allowed each year under RCW 84.55.010.
2. The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.
3. The City of Bainbridge Island is a secondary taxing district, behind the Kitsap Regional Library District (KRLD) and the Bainbridge Island Fire Department/Kitsap County Fire Protection District No. 2 (BIFD). The amount the City can levy is reduced from the \$3.60 maximum by the regular levy amounts actually levied by these two agencies. The maximum amount these agencies can levy is \$0.50 and \$1.50, respectively. Combined, they have the potential to reduce the City's regular levy to \$1.60 per \$1,000 of assessed value. The following table details the levy rates for years 2009, 2008 and 2007:

Year	KRLD/BIFD Levy Rate	COBI Maximum Allowable Levy Rate	COBI Actual Levy Rate
2009	\$1.0166	\$2.5834	\$0.9364
2008	\$1.0046	\$2.5954	\$0.9397
2007	\$1.1213	\$2.4787	\$1.0557

The City's regular levy for 2009 at \$.9364 per \$1,000 assessed valuation on an assessed valuation of \$6.816 billion produced a total levy of \$6.382 million.

Special levies approved by the voters are in addition to the regular levy stated above and are not subject to limitations. From 1990 to 2002, the City had no special levies outstanding. In December 2002, the City issued \$4.5 million in voted Open Space General Obligation bonds. In July 2004, the City issued an additional \$3.5 million in voted Open Space General Obligation bonds. The special levy rate for those issues combined is \$0.0804 in 2009, \$0.0851 in 2008 and \$0.0987 in 2007.

NOTE 6 – CAPITAL ASSETS

A. Capital Assets - Activity for the year ending December 31, 2009, was as follows:

Governmental Activities	Beg. Balance Dec 31, 2008	Additions	Deletions	Ending Balance Dec 31, 2009
Capital Assets not depreciated:				
Land	\$ 71,001	\$ 106	\$ 0	\$ 71,107
Construction in Progress	3,548	1,504	(5)	5,048
Development Rights (Intangible)	880			880
Total Capital Assets not depreciated	75,429	1,610	(5)	77,035
Capital Assets, depreciable:				
Buildings	16,275	21		16,296
Improvements other than buildings	4,119	3		4,122
Machinery & Equipment	7,346	6		7,352
Infrastructure	21,819			21,819
Total Capital Assets depreciated	49,559	30		49,589
Less accumulated depreciation for:				
Buildings	(3,890)	(376)		(4,266)
Improvements other than Buildings	(421)	(285)		(706)
Machinery & Equipment	(5,379)	(442)		(5,820)
Infrastructure	(9,516)	(927)		(10,443)
Total accumulated depreciation	(19,206)	(2,030)		(21,236)
Total Capital Assets depreciated, net	30,352	(1,999)		28,353
Governmental Activities Capital Assets, net	\$105,781	\$ (389)	\$ (5)	\$ 105,388
Business-Type Activities				
	Beg. Balance Dec 31, 2008	Additions	Deletions	Ending Balance Dec 31, 2009
Capital Assets not depreciated:				
Land	\$ 1,779	\$ 18	\$ 0	\$ 1,797
Construction in Progress	9,228	5,522	(80)	14,670
Total Capital Assets, not depreciated	11,007	5,540	(80)	16,467
Capital Assets, depreciable:				
Buildings	39	2		41
Computer Software (Intangible)	32			32
Machinery & Equipment	2,220	31		2,251
Infrastructure	38,385	128		38,513
Total Capital Assets depreciated	40,676	161		40,837
Less accumulated depreciation for:				
Buildings	(7)	(1)		(8)
Computer Software	(32)			(32)
Machinery & Equipment	(1,683)	(115)		(1,798)
Infrastructure	(11,286)	(729)		(12,015)
Total accumulated depreciation	(13,008)	(844)		(13,853)
Total Capital Assets Depreciated net	27,668	(683)		26,985
Business-Type Activities Capital Assets, net	\$ 38,675	\$ 4,857	\$ (80)	\$ 43,452

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

Governmental Activities	2009	2008
General Government	\$ 369	\$ 381
Judicial	5	5
Public Safety	134	405
Physical Environment	8	8
Transportation	1,483	1,430
Economic Environment	9	92
Health & Human Services	0	0
Culture & Recreation	23	150
Total Depreciation – Governmental Activities	\$ 2,030	\$2,471

Business-Type Activities		
Water Utility	\$ 298	\$299
Sewer Utility	351	351
Storm & Surface Water Management Utility	194	194
Building & Development Services	1	2
Total Depreciation – Business-Type Activities	\$ 844	\$846

B. Construction Commitments

The City had one significant active construction project as of December 31, 2009 which was the Wastewater Treatment Plant Upgrade. The project had \$1,500 in an outstanding construction, equipment and design contracts. Several shoreline projects are in various stages of design. Because the projects are in the design stage only, with billings current on an hourly-charge basis for the work done, there are no commitments for them.

NOTE 7 – PENSION PLANS

All of the City's full-time employees and qualifying part-time employees participate in one of the following statewide local government retirement systems administered by the Washington State Department of Retirement Systems (DRS) under cost-sharing, multiple-employer defined benefit and defined contribution public employee retirement plans. DRS, a department within the primary government of the State of Washington issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplemental information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P. O. Box 48380, Olympia, Washington 98504-8380 or viewed at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, Accounting for Pensions by State and Local Government Employers and No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

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

Plan Description

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

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

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

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

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

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

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

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

There are 1,315 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2008:

Retirees and Beneficiaries Receiving Benefits	73,122
Terminated Plan Members Entitled to but not yet Receiving Benefits	27,267
Active Plan Members Vested	105,212
Active Plan Members Non-vested	56,456
Total	262,057

At year end December 31, 2009, the City had 2 employees enrolled in Plan 1, 84 employees enrolled in Plan 2, and 17 employees enrolled in Plan 3.

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, 2009, were as follows:

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

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

** Plan 3 defined benefit portion only.

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2009	\$19,495	\$411,547	\$89,852
2008	\$27,983	\$470,986	\$91,057
2007	\$26,781	\$346,263	\$55,635

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

Plan Description

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

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

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

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

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

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

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

There are 451 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2008:

Retirees and Beneficiaries Receiving Benefits	9,268
Terminated Plan Members Entitled to but not yet Receiving Benefits	650
Active Plan Members Vested	13,120
Active Plan Members Non-vested	3,927
Total	26,965

At December 31, 2009, the City had 21 employees enrolled in Plan 2.

Funding Policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by 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 LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this 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 payroll, as of December 31, 2009, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.24%**
Employee	0.00%	8.46%
State	N/A	3.53%

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

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

	LEOFF Plan 1	LEOFF Plan 2
2009	\$0	\$96,821
2008	\$0	\$93,873
2007	\$0	\$89,290

NOTE 8 – RISK MANAGEMENT

The City of Bainbridge Island is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 136 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$500 for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. These revenues directly offset portions of the membership's annual assessment.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the

organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

During the three years ending December 31, 2009, two payments were made that were not fully covered by insurance. \$75 was paid in December 2007 for settlement of a land use case. \$495 was paid in August of 2009 for settlement of a case involving building fees.

NOTE 9 – DEBT

A. Long-Term Debt

The City issues General Obligation Bonds to finance the purchase, acquisition and/or construction of general City facilities, parks and open space, streets and roads, water systems, sewer systems and storm drainage systems. Bonded indebtedness has also been entered into in prior years to advance refund general obligation and revenue bonds. General Obligation Bonds have been issued for both governmental and business-type activities and are being repaid from the applicable resources.

The City presently has no revenue bonds outstanding although Limited-Tax General Obligation Bonds still outstanding have been used to refinance revenue bonds. In such cases, the outstanding bonds are being repaid entirely from utility revenues but the bonds also carry the full faith and credit guarantee of the General Government. The City is also liable for notes that were entered into for the purchase of agricultural land and open space. These notes are considered obligations of the General Government and are being repaid with General Government revenue sources.

The original amount of general obligation bonds issued in previous years was \$34,680. During the year, limited-tax general obligation bonds totaling \$5,220 were issued to refund previously-issued bonds (which are part of the \$34,680 reported herein).

Long-Term debt amounts reported on the Statements of Net Assets are comprised of the following:

Type of Debt or Related Item	Governmental Activities	Business-Type Activities
General Obligation Bonds	\$23,580	\$1,055
Other General Obligation Long-Term Debt	1,308	11,942
Compensated Absences	447	347
Long-Term Debt analyzed in this Note below	25,335	13,344
Other Components of Debt		
Other Post Employment Benefits	60	
Unamortized Bond Discounts, Premiums and Issuance Costs	309	
Unamortized Loss on Refunding of Prior Long-Term Debt	(504)	
Total General Long-Term Debt	\$25,200	\$13,344

General Obligation Bonds outstanding as of December 31, 2009, are as follows:

Purpose	Interest Rates	Governmental Activities	Business-Type Activities
City Hall Construction, Roads, Open Space	3.25 – 4.70%	\$ 5,570	
Refinance Sewer Improvement Bonds	4.20 – 4.50%		\$ 1,055
Refinance Facilities	3.00 – 5.00%	11,370	
Open Space	2.50 – 4.70%	6,640	
Total General Obligation Bonds		\$ 23,580	\$ 1,055

The annual debt service requirements to maturity for General Obligation Bonds are as follows:

Year Ending	Governmental Activities	Business-Type Activities
December 31	Principal	Interest
2010	\$ 1,490	\$ 947
2011	1,655	897
2012	1,840	838
2013	1,905	773
2014	1,975	702

2015-19	9,275	2,305		
2020-24	4,110	777		
2025-29	1,330	117		
Total	\$ 23,580	\$ 7,356	\$ 1,055	\$ 144

Other General Obligation Long-Term Debt currently outstanding is as follows:

Purpose	Interest Rates	Governmental	Business-Type
Purchase Land from Kitsap County	None	\$ 30	
Purchase 15 acres of agricultural land	7.60%	549	
Purchase 5 Acres for Open Space	7.50%	34	
Purchase Brownell Property	6.00%	36	
PWTF Loan for Street Improvements*	1.00%	209	
PWTF Loan for Emergency Storm Street Repairs	3.00%	450	
PWTF Loan Storm Drain Decant Facility Design*	0.50%		\$ 143
PWTF Loan South Island Sewer Lines Constr.*	0.50%		4,463
PWTF Loan Sewage Treatment Plant Design*	0.50%		316
PWTF Loan Storm Drain Decant Facility Constr.*	0.50%		659
PWTF Loan Sewage Treatment Plant Constr. Loan #1*	0.50%		3,163
PWTF Loan Sewage Treatment Plant Constr. Loan #2*	0.50%		3,198
Total Other General Obligation Debt		\$ 1,308	\$ 11,942

* "PWTF Loan" refers to Public Works Trust Fund loans through the State of Washington.

The annual debt service requirements to maturity for Other General Obligation Debt is as follows:

Year Ending	Governmental	Activities	Business-Type	Activities
December 31	Principal	Interest	Principal	Interest
2010	\$ 142	\$ 60	\$ 755	\$ 60
2011	76	58	755	56
2012	608	24	755	52
2013	59	12	755	48
2014	59	11	755	45
2015-19	153	43	3,776	166
2020-24	118	25	3,776	72
2025-29	95	7	615	4
Total	\$ 1,308	\$ 240	\$ 11,942	\$ 503

In Proprietary Funds and in the Government-Wide Statement of Net Assets, unamortized debt issue costs are recorded as deferred charges and bonds are displayed net of premium or discount. Annual interest expense is decreased by amortization of debt premiums and increased by the amortization of debt issue costs and debt discounts. In December 1998, the City issued \$9,900 in LTGO Bonds, of which a portion pre-refunded and defeased the remaining \$1,000 outstanding of the City's 1994 LTGO Bonds (issued to upgrade the City's Sewage Treatment Plant).

As of December 31, 2009, the City has \$.9 available in its Debt Service Funds to service the General Bonded Debt. As a matter of policy, the City does not formally designate a portion of its taxes to repay General Obligation Debt (other than its voted Unlimited Tax General Obligation bonds); instead, all unrestricted revenues are available for that purpose. At December 31, 2009, the City had no Special Assessment Debt in its Governmental Funds and \$4,463 in PWTF Loans designated as Special Assessment Debt in its Sewer Utility Fund.

B. Changes in Long-Term Liabilities

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

	Beginning Balance 12/31/08	Additions	Reductions	Ending Balance 12/31/2009	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 6,890	\$ 0	\$ (250)	\$ 6,640	\$ 250
Limited Tax General Obligation Bonds	18,220	5,220	(6,500)	16,940	1,240
Total Bonds Payable	25,110	5,220	(6,750)	23,580	1,490
Land Purchase Contracts	775		(156)	619	53
Loans from Other Gov'ts	303	450	(64)	689	89
Capital Leases	61		(61)	0	
Compensated Absences	500		(53)	447	
Governmental Activity Long-term Liabilities	\$ 26,749	\$ 5,670	\$ (7,084)	\$ 25,335	\$ 1,632
Business-Type Activities:					
Limited Tax General Obligation Bonds	\$ 1,350	\$ 0	\$ (295)	\$ 1,055	\$ 195
Loans from Other Gov'ts	11,526	1,171	(755)	11,942	755
Compensated Absences	383		(36)	347	
Business-Type Activity Long-term Liabilities	\$ 13,259	\$ 1,171	\$ (1,086)	\$ 13,344	\$ 950

Compensated absences are liquidated from all funds that participate in operating labor costs, namely: General, Streets, Water, Sewer, Storm and Surface Water Management, and Building and Development Services.

C. Other Debt

The City had no short term debt activity in 2009 and was only contingently liable for special assessments debt in 2009 (South Island Sewer LID No. 20).

NOTE 10 – CLAIMS, CONTINGENCIES, LITIGATION AND OTHER LIABILITIES

In the opinion of management, the City's insurance policies and/or self-insurance reserves are adequate to pay all known or pending claims, suits and other actions (see Note No. 8 - Risk Management). There are no judgments against the City, and the City has no material contingent liabilities for which it does not also have insurance coverage. As a result, the City has not recorded any contingent liabilities because management believes that it is not probable that payment will be required.

In addition, several smaller suits not covered by the City's insurance have been filed against the City regarding land use actions. Most of these suits seek a revised land use decision plus attorneys' costs. All other claims and suits are within the limits of the City's insurance.

There is no requirement to pay out accumulated sick leave (see Note No. 1-E-7). However, employees can draw on that time in the future if sick or injured. As of December 31, 2009 and 2008, the value of total accumulated sick leave was \$1,205 and \$1,254 respectively. Additionally, the City has a program that encourages employees to engage in healthy practices and rewards them with time off. There is no requirement to pay out accumulated "wellness" time. The value of such time at December 31, 2009 and 2008 was \$106 and \$88 respectively.

The City participates in a number of State and Federal assistance programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. The City management is not aware of any cause for disallowance and believes that such disallowances, if any, will not be material.

In 2001 the City purchased the closed Vincent Road Landfill from Kitsap County. At that time the City and County had completed closure of the site. The City maintains several monitoring wells at the site and is responsible for all future monitoring costs as well as any remedial expenses that might arise should the closure efforts fail.

Pritchard Park – Superfund Site cleanup liability. In 2004 and 2006 the City purchased several parcels collectively known as Pritchard Park. These parcels were located in a U.S. Environmental Protection Agency designated Superfund Site. Prior to the purchase the City entered into an agreement with the Federal government for protection from liability for cleanup costs. This agreement was entered into under the authority of the Comprehensive Environmental Response, and Liability Act of 1980, 42 U.S.C. § 9601, et seq, as amended. At this time all clean up costs will be paid for by the Federal Government and/or the State of Washington. In addition, the City purchased a 10 year liability policy for protection against personal injury claims.

On April 22, 2009, the City received notice of a lawsuit brought by the Bainbridge Ratepayers Alliance, a nonprofit corporation. The lawsuit seeks to enjoin the City from issuing proposed bonds and bond anticipation notes to finance completion of the Winslow Sewer Treatment Plant upgrade project. The lawsuit claims that the bonds were in excess of the amount needed for the project and that City failed to follow City-mandated processes for issuing such bonds. The lawsuit also claims that the City’s utility rates are excessively high and that proceeds of the rates have been used for non-utility purposes and are, therefore, an illegal tax.

Because of this pending lawsuit, short-term financing to finish the project has been extended and has not yet been replaced by the proposed long-term financing. On May 15, 2009, the City authorized an interfund loan from the Water Fund to the Sewer Fund of the Consolidated Waterworks Utility of up to \$3,000 to continue the upgrade project of the Sewer Treatment Plant and to allow the City time to address legal challenges related to the project’s long-term financing.

On September 4, 2009, the Kitsap County Superior Court granted two motions filed by the City. First, the Court granted the City’s motion to dismiss the claims regarding the issuance and validity of the bonds for the project. Second, the Court dismissed without prejudice the lawsuit’s other, non-bond-related claims, noting that those claims could be re-filed in the future by plaintiff or others. (The non-bond claims are the subject of a second lawsuit by the Bainbridge Ratepayers Alliance, filed March 25, 2010.)

On September 17, 2009, plaintiff filed a notice of appeal of the dismissal of the bond-related claims. The case has since been briefed and argued to the Court of Appeals. The parties are awaiting a decision.

On January 22, 2010, the City and the Bainbridge Ratepayers Alliance reached a partial settlement which allowed the City to proceed with a bond anticipation note of \$1,900,000 to fund the remaining improvements to the plant.

At this point the City is unable to assess the outcome or fiscal impact of the lawsuit.

NOTE 11 – INTERFUND BALANCES AND TRANSACTIONS

The City had no other interfund transactions during 2009 with the exception of interfund subsidies and the economic rent and internal utility taxes discussed in Note 1.C (treated as quasi-external transactions).

At year ended December 31, 2009, the City had the following interfund balances:

Due To:	Due From Sewer Fund	Total
Water Fund	\$3,000	\$3,000
Total	\$3,000	\$3,000

During the course of the year, the City made a number of interfund transfers. They were as follows:

Receiving Fund:	Transfers From General Fund	Transfers From R/E Excise Tax Fund	Total	Notes / Reason for Transfer
Streets Fund		\$338	\$338	Operating Subsidy
Affordable Housing	\$99		99	Housing Subsidies
G. O. Debt Service	1,265	611	1,876	To fund Debt Svc Pmts
Construction	664	5	670	To fund capital projects
Bldg & Dev Svcs	1,889		1,889	Operating Subsidy
Total	\$3,917	\$954	\$4,871	

Note that although the amounts in the two tables above appear in the individual fund financial statements, certain transactions and related balances have been eliminated for presentation in the consolidated entity-wide Statement of Activities and Statement of Net Assets.

The City does not split most of its tax receipts between funds; rather, it recognizes them either in its General Fund, certain Special Revenue Funds and the G.O. Bond Fund (for certain voted bonds). As a result, the City routinely transfers money from the General Fund and the Real Estate Excise Tax Funds to Streets and Building & Development Services as operating subsidies and to Construction and G.O. Bond to fund capital projects or related debt service. As shown above, these transfers are often significant. In addition, the City funds a large part of its Affordable Housing activities through general tax revenues, which are transferred to the Affordable Housing Fund primarily as matches to private-sector donations and other activity.

NOTE 12 – RECEIVABLE AND PAYABLE BALANCE

A. RECEIVABLES

As of December 31, 2009, receivables (net of amounts determined to be uncollectible) were as follows:

	Accounts	Taxes	Due From Other Governments/Funds	Other	Total
Governmental Activities:					
General Government	\$87	\$1,390	\$0	\$0	\$1,477
Transportation	2		178		180
Culture & Recreation		21	177		198
Judicial	250				250
Phys. Environment				9	9
Total Governmental Activities	\$339	\$1,411	\$355	\$9	\$2,114
Business-Type Activities:					
Water	\$36	\$0	\$3,000	\$14	\$3,049
Sewer	71			292	364
Storm & Surface Water	112		89		202
Bldg. & Dev. Svcs.	1				1
Total Business-Type Activities	\$220	\$0	\$3,089	\$306	\$3,615

Taxes are not considered related to any activity and have been classified as “General Government” for the purposes of this schedule. The City does not recognize these amounts as revenues until they are collected in its fund accounting but is required to by GAAP in its government-wide reporting.

Allowance for Doubtful Accounts for Governmental Receivables is primarily for Court Accounts Receivable. This represents our best estimate based on history provided by the State of Washington. See Note No. 1. E. 2 for detailed information regarding the Allowance for Doubtful Accounts in the business type activities.

B. Payables

As of December 31, 2009, payables were as follows:

	Vendors	Salaries & Benefits	Due To Other Governments/Funds	Other	Total
Governmental Activities:					
General Government	\$413	\$336	\$0	\$0	\$748
Transportation	144	47		177	369
Econ. Environment	26				26
Health/Human Svcs	17				17
Total Governmental Activities	\$600	\$383	\$0	\$177	\$1,159

Business-Type Activities:					
Water	\$32	\$35	\$0	\$0	\$67
Sewer	310	59	3,000	61	3,431
Storm & Surface Water	39	49		2	90
Bldg. & Dev. Svcs.	73	64			137
Total Business-Type Activities	\$455	\$208	\$3,000	\$63	\$3,725

NOTE 13 – SEGMENT INFORMATION

For the City of Bainbridge Island, there are no revenue bonds issued or other revenue-backed debt outstanding for which full, detailed segment data is required to be provided in the basic Financial Statements. However, because the City has issued Limited Tax General Obligation Bonds backed by a pledge of the revenues of the City’s unified Waterworks Utility (Water, Sewer and Storm Water), the following information is provided. In addition, the City’s General Obligation Debt pledges all revenues from all sources.

The City’s Water Utility provides domestic water, irrigation water, and fire flow water to roughly 2,100 customers, primarily in the Winslow area. Its Sewer Utility provides wastewater collection in the South Island and Lynnwood Center area and collection and treatment in Winslow to roughly 2,300 total customers. Its Storm & Surface Water Management (SSWM) Utility provides storm drainage facilities throughout the community as well as watershed education. Development Services consists of the land use approval and regulatory process for land use actions, while Building Services provides the regulatory process for building and related permits.

All segments are presented as major proprietary funds in the City’s Financial Statements.

NOTE 14 – POSTRETIREMENT BENEFITS OTHER THAN RETIREMENT

The City has no termination benefits other than accrued compensated absences described in Note 1(7) and Note 9 and as described below for the Law Enforcement Officers and Firefighters (LEOFF) retirement system for employees hired before October 1, 1977.

Plan Description

As required by RCW 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. One of the City’s employee medical insurance programs provides most medical coverage for eligible

retirees. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions. Financial reporting for the LEOFF retiree healthcare plan is included in Note 7 – Pension Plans.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The City’s annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2009. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB. The net OPEB obligation of \$60 is included as a noncurrent liability on the Statement of Net Assets.

	Fiscal Year Ending <u>12/31/2009</u>
Determination of Annual Required Contribution:	
Normal Cost at year end	\$ 0
Amortization of UAAL*	98
Interest for year	<u>0</u>
Annual Required Contribution	<u>\$ 98</u>
 Determination of Net OPEB Obligation:	
Annual Required Contribution	\$ 98
Interest on prior year Net OPEB Obligation	0
Adjustment to ARC	0
Annual OPEB Cost	98
Contributions made	<u>(38)</u>
Increase in Net OPEB Obligation	\$ 60
 Net OPEB Obligation-beginning of year	 <u>\$ 63</u>
Net OPEB Obligation-end of year	<u>\$ 60</u>

*Unfunded Actuarial Accrued Liability (UAAL)

The City’s OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2009 is as follows:

Fiscal Year Ending	Annual OPEB Cost	% of OPEB Cost	Contribution as a Net Obligation
12/31/2009	\$98	38.8%	\$ 60
12/31/2008	\$101	37.6%	\$ 63

Funded Status and Funding Progress

As of January 1, 2009, the most recent calculation date, the plan was 0% funded. The accrued liability for benefits was \$1,050 and the actuarial value of the assets was \$0 resulting in a UAAL of \$1,050. 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 has used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.22 was assumed for all active members for determining the actuarial accrued liability. Termination and

mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the September 30, 2006, 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 statewide LEOFF 1 medical study performed in 2008. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 15 – PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of \$75 in the governmental activities portion of the Statement of Activities and the Streets Fund was necessary to correct a duplication of an expense related to a parking in lieu deposit refunded to a third party.

NOTE 16 - OTHER DISCLOSURES

The residents of the City of Bainbridge Island voted, on May 19, 2009, in favor of changing from the Mayor Council form of government to a Council Manager form of government and on May 27, 2009, at a regularly scheduled City Council meeting had the First Reading of Ordinance No. 2009-12 accepting that change. The City received confirmation on June 3, 2009, from the office of the Kitsap County Auditor of the returns of the May 19, 2009, Special Election. The measure passed with 69.70% of the votes cast. The City Council held a Special Meeting that evening for Second Reading and a public hearing on Ordinance No. 2009-12, adopting the Council/Manager Form of Government. At the June 3, 2009, City Council meeting, City Administrator Mark Dombroski was sworn in as the City Manager. The City Council identified a council member to serve as Chair and Mayor plus a Deputy Mayor during June of 2009. The measure appeared before council for Third Reading and acceptance on June 10.

Subsequent Events

The City Council had directed staff, upon adoption of the 2010 Budget Update, to return by January 31, 2010, with budget amendments limiting operating expense growth for the Utility Funds to 2.5%. This was accomplished. In February the City Council asked that staff come forward with further budget reductions to meet projected year end 2010 targets of \$500 in tax-supported emergency reserves and \$1,000 in operating reserves. This was accomplished with additional tax supported budget cuts of \$1,164 and utility cuts of \$274. Included in the reductions was the holding open of numerous vacant positions and reductions in professional and community services contracts.

On January 22, 2010, the City received a partial settlement offer from the Bainbridge Ratepayers Alliance which allowed the City to proceed with a short term financing of \$1,900 to finish the Wastewater Treatment Plant upgrade project and avoid the imposition of Sewer Service Surcharges of 111%.

On February 1, 2010, the City issued an interfund loan of \$600 from the Water Fund to the General Fund to mitigate cash flow challenges due to the delayed receipt of proceeds from the sale of surplus property and the receipt of a grant through the Bainbridge Island Park District for a previous property acquisition. Both transactions were expected to occur in 2009. The grant was received in May 2010 and the surplus property was sold in October 2010. The \$600 interfund loan was repaid in April 2010.

CITY OF BAINBRIDGE ISLAND

REQUIRED SUPPLEMENTAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009

BUDGETARY CHANGES

The City of Bainbridge Island manages its budget both by funds and departments. Under Washington Statute, expenditures in the General Fund or any Special Revenue fund may not exceed the final, amended budget for that fund. Under City law, budgetary spending authority for a department may not be transferred to another department unless authorized by the City Council. In effect, this restricts department expenditures to the authorized department budget. However, these are the only two restrictions in force so that there is no requirement to stay within a fund total within each department. Department Directors are, however, expected not to exceed their operating budgets with the exception that professional services costs can be augmented from the capital budget under the Mayor's authority.

Department	Appropriated Budget	Amended Budget	Actuals	Difference From Amended
Legislative	308	105	110	(5)
Executive	2,900	2,524	2,484	40
Judicial	537	534	552	(18)
Finance	5,754	10,738	10,280	458
Information Technology	872	739	713	26
Police	3,733	3,585	3,414	171
Planning	5,166	4,632	2,661	1,971
Public Works	19,617	20,441	11,983	8,458
General Government	8,355	14,222	12,943	1,279
Total	\$47,242	\$57,520	\$45,140	\$12,380

The 2009 Budget was passed in December 2008. The original appropriated budget included \$4,461 of interfund transfers. The fourth quarter of 2008 was the beginning of the economic slowdown and by April of 2009, the recession was in full force for the City and the region. Material operating and capital expenditure reductions were required to meet new projected revenues. The expenditures in excess of the Amended 2009 Budget within the Legislative and Court Departments were offset within the General Fund by savings in other departments. Significant unspent amounts in Public Works and Planning were due to unfinished capital projects.

LEOFF 1 RETIREE MEDICAL BENEFITS - SCHEDULE OF FUNDING PROGRESS

Fiscal Year Ended	Actuarial Value of Assets	Accrued Liability Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2009	\$ -	\$ 1,050	\$1,050	0%	\$ 0	0%

CITY OF BAINBRIDGE ISLAND
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended December 31, 2009

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Revised		
REVENUES				
Property Taxes	6,407,500	5,942,367	6,296,050	353,683
Other Taxes	7,544,080	7,033,131	6,548,518	(484,613)
Fees and Fines	222,362	210,162	165,488	(44,674)
Licenses and Permits	379,970	416,949	363,985	(52,964)
Intergovernmental	704,167	649,748	369,189	(280,560)
Charges for Services	1,127,356	1,117,335	589,567	(527,768)
Interest	175,000	35,000	15,380	(19,620)
Other Revenues	85,000	81,414	80,084	(1,330)
Total REVENUES	<u>16,645,435</u>	<u>15,486,106</u>	<u>14,428,260</u>	<u>(1,057,846)</u>
EXPENDITURES				
General Government	4,405,569	3,592,402	3,294,672	297,730
Judicial	617,456	614,031	649,177	(35,146)
Public Safety	3,901,491	3,715,800	3,546,162	169,638
Physical Environment	1,077,368	892,483	382,147	510,336
Health and Human Services	562,275	430,134	412,184	17,950
Economic Environment	2,091,875	1,671,302	1,396,693	274,609
Culture and Recreation	849,983	597,263	368,484	228,779
Debt Service - Principal	246,502	246,502	246,261	241
Debt Service - Interest	55,062	55,062	58,210	(3,148)
Capital Outlay	141,363	47,428	50,289	(2,861)
Total EXPENDITURES	<u>13,948,944</u>	<u>11,862,408</u>	<u>10,404,280</u>	<u>1,458,128</u>
Operating Income (Loss)	2,696,491	3,623,698	4,023,980	400,282
OTHER FINANCING SOURCES/USES				
Proceeds from sale of fixed assets	601,685	851,685	44,625	(807,060)
Transfers - In	-	-	-	-
Transfers - Out	(3,132,000)	(3,982,202)	(3,916,502)	65,700
Total OTHER FINANCING SOURCES/USES	<u>(2,530,315)</u>	<u>(3,130,517)</u>	<u>(3,871,877)</u>	<u>(741,360)</u>
Net Change in Fund Balance	166,176	493,181	152,103	(341,078)
Fund Balances -- Beginning	2,376,462	2,376,462	(199,800)	(2,576,262)
Prior Period Adjustments	-	-	-	-
Ending Fund Balance - Restricted	-	-	-	-
Ending Fund Balance - Unrestricted	2,542,638	2,869,643	(47,696)	(2,917,340)
Total Ending Fund Balance	<u><u>2,542,638</u></u>	<u><u>2,869,643</u></u>	<u><u>(47,696)</u></u>	<u><u>(2,917,340)</u></u>

CITY OF BAINBRIDGE ISLAND
 Budgetary Comparison Schedule
 Special Revenue Fund-Streets
 For the Year Ended December 31, 2009

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Revised		
REVENUES				
Other Taxes	560,000	462,000	465,826	3,826
Licenses and Permits	50,802	48,257	23,757	(24,500)
Intergovernmental	749,608	590,222	504,271	(85,951)
Charges for Services	-	-	833	833
Interest	5,000	5,000	-	(5,000)
Other Revenues	446,089	423,167	339,025	(84,142)
Total REVENUES	<u>1,811,499</u>	<u>1,528,646</u>	<u>1,333,711</u>	<u>(194,935)</u>
EXPENDITURES				
General Government	426,018	494,696	394,301	100,396
Public Safety	200,606	339,760	7,415	332,345
Physical Environment	106,151	99,473	43,416	56,057
Transportation	2,095,345	1,927,166	1,653,417	273,749
Economic Environment	17,590	17,590	-	17,590
Debt Service - Interest	-	-	3,560	(3,560)
Total EXPENDITURES	<u>2,845,710</u>	<u>2,878,685</u>	<u>2,102,108</u>	<u>776,577</u>
Operating Income (Loss)	(1,034,211)	(1,350,039)	(768,397)	581,642
OTHER FINANCING SOURCES/USES				
Proceeds from sale of fixed assets	-	-	19,347	19,347
Proceeds of general long term debt	-	-	449,632	449,632
Transfers - In	835,000	835,000	337,500	(497,500)
Transfers - Out	-	-	-	-
Total OTHER FINANCING SOURCES/USES	<u>835,000</u>	<u>835,000</u>	<u>806,479</u>	<u>(28,521)</u>
Net Change in Fund Balance	(199,211)	(515,039)	38,082	553,122
Fund Balances -- Beginning	200,000	200,000	(184,219)	(384,219)
Prior Period Adjustments	-	-	(75,250)	75,250
Ending Fund Balance - Restricted	-	-	-	-
Ending Fund Balance - Unrestricted	789	(315,039)	(70,886)	244,153
Total Ending Fund Balance	<u><u>789</u></u>	<u><u>(315,039)</u></u>	<u><u>(70,886)</u></u>	<u><u>244,153</u></u>



ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

**Brian Sonntag, CGFM
Ted Rutt
Doug Cochran
Jerry Pugnetti
Chuck Pfeil, CPA
Jim Brittain, CPA
Jan Jutte, CPA, CGFM
Ivan Dansereau
Mike Murphy
Mindy Chambers
Mary Leider
(360) 902-0370
(866) 902-3900**

**Website
Subscription Service**

**www.sao.wa.gov
<https://www.sao.wa.gov/EN/News/Subscriptions/>**