

Washington State Auditor's Office
Financial Statements Audit Report

City of Bainbridge Island
Kitsap County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010907

Issue Date
December 23, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

December 23, 2013

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,

TROY KELLEY
STATE AUDITOR

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Kitsap County
January 1, 2012 through December 31, 2012**

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

**City of Bainbridge Island
Kitsap County
January 1, 2012 through December 31, 2012**

Board of Commissioners
City of Bainbridge Island
Bainbridge Island, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bainbridge Island, Kitsap County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 3, 2013. During the year ended December 31, 2012, the City implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR

December 3, 2013

Independent Auditor's Report on Financial Statements

City of Bainbridge Island Kitsap County January 1, 2012 through December 31, 2012

Board of Commissioners
City of Bainbridge Island
Bainbridge Island, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bainbridge Island, Kitsap County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 6.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bainbridge Island, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2012, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 15 and budgetary comparison information on pages 55 through 57 and LEOFF I Retiree Medical Benefits – Schedule of Funding Progress on page 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Handwritten signature of Troy X. Kelley in black ink.

TROY KELLEY
STATE AUDITOR

December 3, 2013

Financial Section

**City of Bainbridge Island
Kitsap County
January 1, 2012 through December 31, 2012**

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CITY OF BAINBRIDGE ISLAND, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

This narrative provides an overview and analysis of the City of Bainbridge Island's financial activities for the fiscal year ending December 31, 2012. The purpose is to highlight significant financial issues and activities, the resulting changes in financial position and economic factors that affected the City. We encourage readers to consider this information in conjunction with the accompanying Transmittal Letter, Basic Financial Statements and Notes to the Financial Statements.

FINANCIAL HIGHLIGHTS

- The City's assets exceeded its liabilities at the close of the most recent fiscal year by \$132,259,987. Of this amount, \$16,517,983 is reported as unrestricted net position and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$592,567. This decrease was result of several prior period adjustments totaling \$5,336,004 offset by normal operating increases. By far the largest prior period adjustment was the result of a comprehensive analysis of the City's capital assets in preparation for a software upgrade. The largest capital asset adjustment came from the City Council's decision over the last eight years to transfer \$5,320,597 in primarily open space land to the Bainbridge Island Metropolitan Park and Recreation District.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,440,780, an increase of \$2,967,176 in comparison to the prior year. This was the result of normal operating increases plus a prior period adjustment. The adjustment came about when the City Council exempted the Street Fund from storm and surface water management utility fees, retroactive to 2008.
- Total 2012 Governmental Activities program revenue decreased by \$3,617,641, or 55%, as compared to 2011, due almost entirely to a decrease in capital grants as the Winslow Way Reconstruction project was closed out.
- Total 2012 program revenues of the Business-type Activities decreased by \$1,277,026, or 14%, due mostly to a rate reduction in the water utility.
- The City's total long-term obligations decreased by \$2,985,266, or 8%, during the year as the result of normal debt retirements offset by several small new issuances.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. These financial statements comprise three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required and other supplementary information.

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

The **Statement of Activities and Changes in Net Position** presents information showing how the City's net position changed during the most recent fiscal year. All current year 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 Position and the Statement of Activities and Changes in Net Position, 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 functional groups 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). For the City of Bainbridge Island, these funds include the General Fund, the Streets Fund and the General Obligation Bond Fund. All Other Governmental Funds are reported in a single column (Non-Major Funds).

Proprietary Funds Financial Statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, 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 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 all Enterprise Funds in separate columns to facilitate review of the information. 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 Position. 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 in 2012 built on the stability achieved in 2011. The City implemented a citywide reorganization in 2011, including reducing staff and services, which resulted in revenues exceeding expenditures. The City's overall financial position and results of operations for the past two years are summarized below. This information is based on data in the Government-Wide Financial Statements.

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Cash and Cash Equivalents	\$ 9,711,924	\$ 8,579,044	\$10,219,863	\$ 7,814,822	\$ 19,931,787	\$ 16,393,866
Other Assets	4,725,229	3,543,621	2,978,511	3,916,480	7,703,740	7,460,101
Capital Assets	100,332,379	105,562,737	43,497,120	44,663,281	143,829,499	150,226,018
Total Assets	114,769,531	117,685,402	56,695,494	56,394,584	171,465,025	174,079,986
Other Liabilities	944,855	1,339,909	1,951,605	593,677	2,896,460	1,933,586
Long Term Debt	20,591,993	22,828,522	15,716,586	16,465,323	36,308,579	39,293,845
Total Liabilities	21,536,848	24,168,431	17,668,191	17,059,000	39,205,039	41,227,431
Net Investment in Capital Assets	85,768,791	83,674,478	28,156,132	28,561,022	113,924,923	112,235,500
Restricted	1,817,081	675,019	-	-	1,817,081	675,019
Unrestricted	5,646,812	9,167,473	10,871,171	10,774,561	16,517,983	19,942,035
Total Net Position	\$ 93,232,684	\$93,516,970	\$39,027,303	\$ 39,335,584	\$132,259,987	\$ 132,852,554

In 2012 total net position of the City decreased \$592,567, or less than 1%. Governmental Type net position decreased \$284,286, and Business Type assets decreased \$308,281.

Cash and Cash Equivalent increased by \$3,537,921, or 22%, of which \$1,132,880 was for Governmental Activities and \$2,405,041 was for Business-Type Activities. The increases to the cash positions of the funds are primarily due to recent actions taken by the City to bring budgetary expenditures below revenue estimates. In addition, some budgeted 2012 capital projects were delayed to 2013 and 2014.

Capital Assets decreased by \$6,396,519, or 4%, primarily as a result of a comprehensive analysis of the City's fixed assets, with accompanying prior period adjustments to reflect updated information.

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Program Revenues						
Charges for Services	\$ 1,339,839	\$1,485,772	\$ 7,567,829	\$8,924,480	\$ 8,907,668	\$10,410,252
Operating Grants & Contributions	578,756	761,903	71,012	23,259	649,768	785,162
Capital Grants & Contributions	1,038,779	4,327,340	328,214	296,342	1,366,993	4,623,682
Total Program Revenues	2,957,374	6,575,015	7,967,055	9,244,081	10,924,429	15,819,096
General Revenues						
Property Taxes	7,305,485	7,071,954	-	-	7,305,485	7,071,954
All Other Taxes	8,862,829	8,185,307	-	-	8,862,829	8,185,307
Interest	80,538	85,790	223,061	160,099	303,599	245,889
Other Revenues	422,348	982,538	15,082	60,934	437,430	1,043,472
Total General Revenues	16,671,200	16,325,590	238,143	221,032	16,909,343	16,546,622
Program Expenses						
General Government	4,680,048	4,709,261	-	-	4,680,048	4,709,261
Judicial	640,858	567,113	-	-	640,858	567,113
Public Safety	4,002,552	3,954,194	-	-	4,002,552	3,954,194
Physical Environment	485,523	675,182	-	-	485,523	675,182
Transportation	2,977,868	3,199,737	-	-	2,977,868	3,199,737
Health & Human Services	262,013	285,430	-	-	262,013	285,430
Economic Environment	1,151,586	1,048,815	-	-	1,151,586	1,048,815
Culture and Recreation	533,814	511,432	-	-	533,814	511,432
Water	-	-	1,224,338	1,549,413	1,224,338	1,549,413
Sewer	-	-	2,999,306	2,929,336	2,999,306	2,929,336
Storm & Surface Water Management	-	-	2,204,964	1,907,797	2,204,964	1,907,797
Building & Development Services	-	-	1,927,468	1,827,442	1,927,468	1,827,442
Total Program Expenses	14,734,260	14,951,166	8,356,076	8,213,988	23,090,336	23,165,154
Excess/Deficiency	4,894,314	7,949,439	(150,878)	1,251,126	4,743,436	9,200,565
Other						
Transfers	(1,009,300)	(835,000)	1,009,300	835,000	-	-
Changes in Net Position	3,885,014	7,114,439	858,422	2,086,126	4,743,436	9,200,565
Beginning Net Position	93,516,970	86,402,531	39,335,584	37,249,458	132,852,554	123,651,989
Prior Period Adjustments	(4,169,301)	-	(1,166,703)	-	(5,336,004)	-
Ending Net Position	\$93,232,684	\$93,516,970	\$39,027,303	\$39,335,584	\$132,259,987	\$132,852,554

GOVERNMENTAL ACTIVITIES

In 2012 there was a decrease in net position related to Governmental Activities of \$284,286 or less than 1%.

Total 2012 program revenues decreased by \$3,617,641, primarily due to a decrease in capital grants related to the close-out of a reconstruction project of the City's main street. The most significant revenue component of Governmental Activities is the general tax base, representing 82% of the total general and program revenues in 2012. Property tax is the single largest source of General Revenues, at \$7,305,485 or 44% of the total.

Governmental Activities' program expenses in total and within individual categories had relatively little change from 2011 primarily because of the City's concerted efforts to rein in expenditure growth over the last four years.

BUSINESS-TYPE ACTIVITIES

In 2012 there was a decrease in net position related to Business-Type Activities of \$308,281, or less than 1%.

The City's Water and Sewer Funds both showed modest balances of operating revenues over expenses. The Storm and Surface Water Fund incurred a net operating loss of \$256,096 due almost entirely to the aforementioned Council authorized exemption of the Street Fund from storm and surface water management utility fees. The Building and Development Services Fund showed a net operating loss of \$992,002. The Building and Development Services activity recovered 48% of its costs with program revenues. An operating transfer from the General Fund provided additional revenue to cover program costs. Rate increases in future years could increase the percentage of costs recovered through program revenues.

ANALYSIS OF BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

The **General Fund** balance increased \$1,755,818 primarily because of a decrease in salaries due to some vacant positions and much lower than anticipated litigation expenditures. In addition, transfers out of the General Fund were lower than anticipated because real estate excise tax revenue was higher than expected. As a result, the General Fund ended the year with a fund balance of \$8,326,661 as compared to \$6,570,843 for 2011.

The **Street Fund** balance increased from \$423 to \$1,551,769. In large part, this dramatic increase came about from City Council's 2012 decision to exempt the Street Fund from storm and surface water management utility fees, retroactive to 2008. The resulting interfund loan of \$1,374,684, scheduled to be paid back in 2013, represents 81% of the Street Fund's assets. Street and road expenditures at \$2,499,833 were relatively little changed from 2011. Revenues decreased in 2012 due to a decrease in parking fees when the City ended its agreement to manage the Washington State Ferry's Bainbridge Island parking lot.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original 2012 Adopted Budget anticipated a decrease of less than 1% in the budgetary fund balance during the year. After revisions the final 2012 amended budget anticipated an essentially 0% change in fund balance of just \$66,747. These budgets anticipated relatively flat revenue trends and expenditure increases in only a few select functions. The actual 2012 ending fund balance was \$8,326,661, an increase of \$1,988,256 or 31% over the final revised budget. As noted above, there were lower than anticipated salary costs and transfers-out and much lower than anticipated litigation costs. The increased fund balance is also the result of reductions in programs and services as the City continues to face significant economic challenges. The current lower revenue levels and commensurate service levels are expected to continue. To learn more about the City's budget process and economic challenges, see

Note 1.D. in the Notes to the Financial Statements, Economic and Other Factors below and the Required Supplementary Information.

OTHER FUND BUDGETARY HIGHLIGHTS

Total Street Fund revenues were \$317,459 or 10% under the final revised budget. Transfers-in increased from the original budget to the final budget by \$372,107. Both of these changes resulted from lower than budgeted revenue from parking fees when the City ceased management of a Washington State Ferry system parking lot adjacent to the Bainbridge Island ferry terminal.

Real Estate Excise Tax Fund final revised revenue budget exceeded the original budget by \$472,410 or 42% due to much higher than anticipated real estate sales activity on the island.

Water Fund revenues were \$122,255 or 7% under budget due to a rate reduction implemented January 2012. Sewer Fund revenues were \$1,697,977 or 25% below budget due to the elimination of a planned rate increase and lower than budgeted revenue related to a debt-funded capital project. Storm and Surface Water Management (SSWM) Fund revenues were \$347,297 or 15% less than budget due to a 2012 City ordinance exempting the Street Fund from SSWM utility fees.

CAPITAL ASSETS

The City's net invested in **Capital Assets** (net of depreciation) decreased \$6,396,519 or 4%, from the previous year. As noted above, this decrease is almost entirely related to several prior period adjustments resulting from a comprehensive analysis of the City's capital assets in preparation for a software upgrade. The largest adjustment came from the City Council's decision over the last eight years to transfer \$5,320,597 in primarily open space land to the Bainbridge Island Metropolitan Park and Recreation District. Approximately 70% of the City's overall net investment in Capital Assets is related to **Governmental Assets**. Capital Assets held by the City at the end of the current and previous years are summarized as follows.

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 63,582,851	\$ 68,900,449	\$ 1,796,865	\$ 1,796,865	\$ 65,379,717	\$ 70,697,314
Buildings & Improvements	16,346,115	15,742,917	40,619	40,619	16,386,734	15,783,536
Intangible Assets	880,000	880,000	32,365	32,365	912,365	912,365
Vehicles & Equipment	6,418,279	7,638,695	1,918,668	2,267,237	8,336,947	9,905,932
Infrastructure	38,342,543	36,917,843	56,708,325	56,517,430	95,050,868	93,435,273
Construction in Progress	433,471	164,538	238,812	179,110	672,283	343,648
Accumulated Depreciation	(25,670,881)	(24,681,704)	(17,238,535)	(16,170,347)	(42,909,416)	(40,852,051)
Totals	\$100,332,379	\$105,562,737	\$43,497,120	\$44,663,281	\$143,829,499	\$150,226,018

Additional information about the City's Capital Assets is presented in Note 4 in the Notes to the Financial Statements.

LONG-TERM OBLIGATIONS

At the end of the current year the City's **Long-Term Obligations** related to **Governmental Activities** decreased by \$2,236,529, or 10%, from normal debt retirements. Of the debt outstanding at the end of 2012, 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 utility revenue, after operating and maintenance expenses. The total amount of debt related to **Business-Type Activities** decreased from the previous year by \$748,737. This included normal debt retirements offset by a few small new issuances.

The debt position of the City is summarized below and in Note 7 in the Notes to the Financial Statements.

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$18,595,000	\$20,435,000	\$ 5,085,000	\$ 5,490,000	\$23,680,000	\$25,925,000
LID Bonds	411,000	755,300	-	-	411,000	755,300
Intergovernmental Loans	583,204	541,724	10,083,359	10,431,656	10,666,563	10,973,380
Land Purchase Contracts	349,000	449,000	-	-	349,000	449,000
Capital Leases	115,625	170,797	-	-	115,625	170,797
Compensated Absences	499,490	475,461	375,598	363,064	875,088	838,525
Other Post-Employment Benefits	165,671	139,565	-	-	165,671	139,565
Unamortized Bond Discounts & Premiums	199,110	247,017	176,266	186,058	375,375	433,075
Unamortized Loss on Refunding Prior Long-Term Debt	(326,106)	(385,341)	(3,637)	(5,455)	(329,743)	(390,796)
Totals	\$20,591,993	\$22,828,522	\$15,716,586	\$16,465,323	\$36,308,579	\$39,293,845

ECONOMIC AND OTHER FACTORS

The national and regional economic slowdown that began in 2008 has bottomed out but recovery continues to be slow. The City has responded by conservatively estimating revenues and adopting cost containment measures to reduce expenditures.

The 2012 and 2013 budgets continued the lower staffing levels and programmatic reorganization begun in 2011, with additional reductions in a few positions. Changes to the budgets were primarily limited to updating revenue to match current projections and adjusting cost factors based on external information such as changes to required state retirement contributions and health plan costs.

The City's Capital Improvement Plan has also been affected by the recession and capital spending was curtailed as revenues decreased. However, starting in 2011 and continuing into 2012 and 2013, the City has undertaken several large capital projects to replace aging utility and street infrastructure. These projects have drawn funding from several sources, including federal and state grants, new debt, developer contributions, utility revenue and local sources.

The current economic environment continues to challenge the City, its residents and local businesses. While the local economy has shown signs of stabilization beginning in 2011 and

continuing through 2012, the City does not expect to receive pre-recession level revenues for several more years. The City has made difficult choices that brought recurring expenses to levels below recurring revenues, and has begun to establish prudent financial reserves. These efforts will continue into future years.

CITY OF BAINBRIDGE ISLAND, WASHINGTON
Statement of Net Position
As of December 31, 2012

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and Cash Equivalents	\$ 9,711,924	\$ 10,219,863	\$ 19,931,787
Receivables - Net	1,827,228	446,730	2,273,958
Due from Other Funds	1,374,684	-	1,374,684
Due from Other Governments	607,207	37,710	644,917
Inventories	154,239	74,806	229,045
Prepays	78,566	-	78,566
Unamortized Bond Issuance Costs	316,702	99,041	415,743
Special Assessments Receivable	366,603	2,320,225	2,686,828
Capital Assets - Net of Accumulated Depreciation	35,436,056	41,461,442	76,897,498
Land	63,582,851	1,796,865	65,379,717
Construction in Progress	433,471	238,812	672,283
Other Capital Assets	880,000	-	880,000
Total Assets	114,769,531	56,695,494	171,465,025
Liabilities			
Accounts Payable	442,010	167,745	609,756
Accrued Expenses	476,431	220,129	696,560
Due to Other Funds	-	1,374,684	1,374,684
Unearned Revenue	26,414	189,047	215,461
Compensated Absences	499,490	375,598	875,088
Due Within One Year	2,157,628	1,262,422	3,420,049
Due in More Than One Year	17,934,875	14,078,566	32,013,441
Total Liabilities	21,536,848	17,668,191	39,205,039
Net Position			
Net Investment in Capital Assets	85,768,791	28,156,132	113,924,923
Restricted For			
Police Special Operations	43,804	-	43,804
PEG Capital	124,827	-	124,827
Street Interfund Loan Receivable	1,374,684	-	1,374,684
Real Estate Excise Tax	49,268	-	49,268
Civic Improvement	117,305	-	117,305
LID Collections	85,335	-	85,335
Construction - Bond Proceeds	18,076	-	18,076
LID Bond Proceeds	3,783	-	3,783
Unrestricted	5,646,812	10,871,171	16,517,982
Total Net Position	\$ 93,232,683	\$ 39,027,303	\$ 132,259,986

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

CITY OF BAINBRIDGE ISLAND, WASHINGTON

Statement of Activities

For the Year Ended December 31, 2012

	Program Revenues				Net Expense/Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating		Governmental Activities	Business-Type Activities	Total
			Grants and Contributions	Capital Grants and Contributions			
Primary Government:							
Governmental Activities:							
General Government	\$ 3,740,876	\$ 1,039,999	\$ -	\$ -	\$ (2,700,877)	\$ -	\$ (2,700,877)
Judicial	640,858	169,202	-	-	(471,655)	-	(471,655)
Public Safety	4,002,552	108,790	47,659	-	(3,846,102)	-	(3,846,102)
Physical Environment	485,523	1,847	50,784	302,373	(130,519)	-	(130,519)
Transportation	2,977,868	20,000	470,608	456,407	(2,030,854)	-	(2,030,854)
Health and Human Services	262,013	-	-	-	(262,013)	-	(262,013)
Economic Environment	1,151,586	-	-	-	(1,151,586)	-	(1,151,586)
Culture and Recreation	533,814	-	9,705	280,000	(244,109)	-	(244,109)
Interest on Long Term Debt	939,172	-	-	-	(939,172)	-	(939,172)
Total Government Activities	14,734,260	1,339,839	578,756	1,038,779	(11,776,886)	-	(11,776,886)
Business-Type Activities:							
Water	1,224,338	1,424,357	-	121,308	-	321,326	321,326
Sewer	2,999,306	3,285,514	-	206,906	-	493,114	493,114
Storm and Surface Water Management	2,204,964	1,940,493	71,012	-	-	(193,459)	(193,459)
Building and Development Services	1,927,468	917,466	-	-	-	(1,010,002)	(1,010,002)
Total Business-Type Activities	8,356,076	7,567,829	71,012	328,214	-	(389,021)	(389,021)
Total Primary Government	\$ 23,090,336	\$ 8,907,668	\$ 649,768	\$ 1,366,993	\$ (11,776,886)	\$ (389,021)	\$ (12,165,907)

General Revenues:

Property Taxes Levied for General Purposes	\$ 6,637,643	\$ -	\$ -	\$ 6,637,643
Property Taxes Levied for Other Purposes	667,842	-	-	667,842
Sales and Use Taxes	3,231,646	-	-	3,231,646
Business and Occupation Taxes	4,056,123	-	-	4,056,123
Excise Taxes	1,575,060	-	-	1,575,060
Penalties and Interest	28,927	164,525	-	193,452
Unrestricted Investment Earnings	51,611	58,536	-	110,147
Grants and Contributions not Restricted to Specific Programs	314,549	-	-	314,549
Miscellaneous	107,798	15,082	-	122,881
Transfers	(1,009,300)	1,009,300	-	-
Total General Revenues, Extraordinary, Special Items, and Transfers	15,661,900	1,247,443	16,909,343	
Change in Net Position	3,885,014	858,422	4,743,436	
Prior Period Adjustments	(4,169,301)	(1,166,703)	(5,336,004)	
Net Position - Beginning	93,516,970	39,335,584	132,852,554	
Net Position - Ending	\$ 93,232,684	\$ 39,027,303	\$ 132,259,987	

CITY OF BAINBRIDGE ISLAND, WASHINGTON

Balance Sheet Statement

Governmental Funds

As of December 31, 2012

	General	Streets	GO Bonds	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 8,858,402	\$ 181,981	\$ 7	\$ 671,534	\$ 9,711,924
Receivables - Net	12,333	6,947	-	86,488	105,769
Inventories	12,583	141,657	-	-	154,239
Due From Other Funds	-	1,374,684	-	-	1,374,684
Unmatured Assessments	-	-	-	366,603	366,603
Total Assets	\$ 8,883,318	\$ 1,705,269	\$ 7	\$ 1,124,625	\$ 11,713,219
LIABILITIES					
Accounts Payable	\$ 246,521	\$ 86,299	\$ -	\$ 109,190	\$ 442,010
Accrued Expenses	298,103	60,254	-	-	358,356
Unearned Revenue	12,033	6,947	-	453,091	472,072
Total Liabilities	556,657	153,500	-	562,282	1,272,439
FUND BALANCES					
Nonspendable	12,583	141,657	-	-	154,239
Restricted	168,631	1,374,684	-	273,766	1,817,081
Committed	161,520	35,429	7	466,673	663,629
Assigned	2,005,941	-	-	-	2,005,941
Unassigned	5,977,986	-	-	(178,096)	5,799,890
Total Fund Balances	8,326,661	1,551,769	7	562,344	10,440,780
Total Liabilities and Fund Balances	\$ 8,883,318	\$ 1,705,269	\$ 7	\$ 1,124,625	\$ 11,713,219

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

CITY OF BAINBRIDGE ISLAND, WASHINGTON
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
As of December 31, 2012

Ending fund balance - governmental funds	\$ 10,440,780
 Amounts reported for governmental activities in the Statement of Net Position 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	\$ 100,332,379
Other Assets that are not available to pay for current period expenditures and therefore not reported in governmental funds	78,566
 Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Unamortized Debt Issuance Costs	316,702
Accounts Receivable - Earned but Unavailable	2,328,666
Unearned Revenue	445,658
 Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	
Accrued expenses and compensated absences	(617,564)
Long-term liabilities, including bonds payable	(20,092,503)
 Net Position of Major Governmental Activities	 <u>\$ 93,232,684</u>

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

CITY OF BAINBRIDGE ISLAND, WASHINGTON
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the year ended December 31, 2012

	General	Streets	GO Bond	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 6,697,791	\$ -	\$ 667,842	\$ -	\$ 7,365,633
Other Taxes	6,663,401	588,431	-	1,663,790	8,915,621
Fees and Fines	174,172	-	-	-	174,172
Licenses and Permits	577,535	20,000	-	-	597,535
Intergovernmental	448,681	470,608	-	487,627	1,406,917
Charges for Services	564,421	490	-	1,265	566,176
Interest and Investment Revenue	49,981	-	-	1,629	51,611
Other Revenues	89,455	12,261	-	634,897	736,613
Total Revenues	15,265,437	1,091,790	667,842	2,789,209	19,814,277
EXPENDITURES					
Current					
General Government	3,073,906	344,119	-	-	3,418,024
Judicial	639,257	-	-	-	639,257
Public Safety	3,761,541	53,622	-	-	3,815,163
Physical Environment	450,453	29,883	-	-	480,336
Transportation	-	1,444,209	-	3,115	1,447,324
Health and Human Services	261,909	-	-	-	261,909
Economic Environment	977,836	-	-	171,349	1,149,185
Culture and Recreation	238,361	-	-	-	238,361
Debt Service - Principal	155,172	-	1,898,520	344,300	2,397,992
Debt Service - Interest	41,471	-	851,861	36,355	929,687
Capital Outlay	216,757	628,002	-	1,567,197	2,411,956
Total Expenditures	9,816,665	2,499,833	2,750,381	2,122,316	17,189,195
Excess/(deficiency) of Revenue over Expenditures	5,448,772	(1,408,044)	(2,082,539)	666,893	2,625,082
OTHER FINANCING SOURCES/(USES)					
Disposition of Capital Assets	32,723	-	-	-	32,723
Transfers In	-	1,653,300	2,082,100	532,112	4,267,512
Transfers Out	(3,738,260)	-	-	(1,538,552)	(5,276,812)
Total Other Financing Sources/Uses	(3,705,537)	1,653,300	2,082,100	(1,006,440)	(976,577)
Net Change in Fund Balance	1,743,235	245,256	(439)	(339,547)	1,648,505
Fund Balances - Beginning	6,570,843	423	446	901,891	7,473,604
Prior Period Adjustments	12,583	1,306,089	-	-	1,318,672
Fund Balances - Ending	\$ 8,326,661	\$ 1,551,769	\$ 7	\$ 562,344	\$ 10,440,780

CITY OF BAINBRIDGE ISLAND, WASHINGTON
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2012

Net change in fund balances - Total governmental funds \$ 1,648,505

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

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	\$ 2,411,956	
Less current year depreciation	(2,317,865)	
		94,091

Revenue in the Statement of Activities that does not provide current financial resources is reported as revenues in the funds. (218,426)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which repayments exceeded proceeds.

Bond Proceeds	0	
Repayment of Long-Term Debt	2,397,992	
		2,397,992

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. (37,147)

Change in Net Position of Governmental Activities	\$ 3,885,014

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

CITY OF BAINBRIDGE ISLAND, WASHINGTON

Statement of Net Position

Proprietary Funds

As of December 31, 2012

	Business-Type Activities - Enterprise Funds					Total
	Water	Sewer	Storm and Surface Water Management	Building and Development Services		
ASSETS						
Current Assets						
Cash and Cash Equivalents	\$ 5,660,073	\$ 2,855,103	\$ 1,352,117	\$ 352,571	\$ 10,219,863	
Receivables - Net	23,720	290,959	131,206	845	446,730	
Due From Other Governments	-	-	37,710	-	37,710	
Inventories	56,409	2,788	15,609	-	74,806	
Non-Current Assets						
Unamortized Bond Issuance Costs	-	99,041	-	-	99,041	
Special Assessments	-	2,320,225	-	-	2,320,225	
Capital Assets - Net of Accumulated Depreciation	12,051,817	20,701,096	8,707,057	1,473	41,461,442	
Land	637,436	834,874	324,555	-	1,796,865	
Construction in Progress	16,288	172,512	50,012	-	238,812	
Total Assets	<u>18,445,743</u>	<u>27,276,597</u>	<u>10,618,265</u>	<u>354,889</u>	<u>56,695,494</u>	
LIABILITIES						
Current Liabilities						
Accounts Payable	18,359	48,053	94,682	6,651	167,745	
Accrued Expenses	23,255	79,261	47,787	69,827	220,129	
Interfund Loans Payable	-	-	1,374,684	-	1,374,684	
Unearned Revenue	-	-	-	189,047	189,047	
Current Portion of Long-Term Debt	-	1,211,719	50,703	-	1,262,422	
Non-Current Liabilities						
Compensated Absences	155,064	80,394	52,402	87,738	375,598	
Bonds, Loans, and Other Debt	-	13,479,676	598,890	-	14,078,566	
Total Liabilities	<u>196,679</u>	<u>14,899,103</u>	<u>2,219,147</u>	<u>353,262</u>	<u>17,668,191</u>	
Net Position						
Net investment in Capital Assets	12,705,541	7,017,087	8,432,031	1,473	28,156,132	
Unrestricted	5,543,523	5,360,407	(32,913)	154	10,871,171	
Total Net Position	<u>\$ 18,249,064</u>	<u>\$ 12,377,494</u>	<u>\$ 8,399,118</u>	<u>\$ 1,627</u>	<u>\$ 39,027,303</u>	

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

CITY OF BAINBRIDGE ISLAND, WASHINGTON
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds

For the year ended December 31, 2012

	Water	Sewer	Storm and Surface Water Management	Building & Development Services	Totals
OPERATING REVENUES					
Charges for Services	\$ 1,424,357	\$ 3,285,514	\$ 1,940,493	\$ 917,466	\$ 7,567,829
Total Operating Revenues	1,424,357	3,285,514	1,940,493	917,466	7,567,829
OPERATING EXPENSES					
Personal Services	473,882	823,860	1,139,760	1,610,756	4,048,258
Contractual Services	115,730	110,094	381,931	161,113	768,868
Utilities	99,789	200,493	110,019	1,354	411,656
Repairs and Maintenance	16,904	72,956	37,486	6,511	133,856
Miscellaneous Expense	5,236	8,844	15,400	6,216	35,696
Other Supplies and Expenses	188,757	545,218	260,980	24,213	1,019,168
Insurance Claims and Expenses	29,111	43,486	41,872	98,569	213,039
Depreciation	294,928	959,595	209,140	737	1,464,401
Total Operating Expenses	1,224,338	2,764,547	2,196,589	1,909,468	8,094,942
Operating Income (Loss)	200,018	520,967	(256,096)	(992,002)	(527,113)
NON-OPERATING REVENUES (EXPENSES)					
Interest and Investment Revenue	33,574	17,058	7,904	-	58,536
Miscellaneous Revenue	10,554	165,700	74,321	45	250,619
Interest Expense	-	(234,759)	(3,375)	-	(238,134)
Settlement Expense	-	-	(5,000)	(18,000)	(23,000)
Total Non-Operating Revenues (Expenses)	44,128	(52,001)	73,850	(17,955)	48,021
Net income/(loss) before contributions and transfers	244,146	468,965	(182,247)	(1,009,957)	(479,092)
Capital Contributions	121,308	206,906	-	-	328,214
Transfers In	-	-	-	1,009,300	1,009,300
Change in Net Position	365,454	675,871	(182,247)	(657)	858,422
Net Position - Beginning	17,885,489	11,702,014	9,745,797	2,283	39,335,584
Prior Period Adjustments	(1,879)	(391)	(1,164,433)	-	(1,166,703)
Total Net Position - Ending	\$ 18,249,064	\$ 12,377,494	\$ 8,399,118	\$ 1,627	\$ 39,027,303

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

CITY OF BAINBRIDGE ISLAND, WASHINGTON
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2012

Page 1 of 2

	Water	Sewer	Storm and Surface Water Management	Building and Development Services	Total
Cash Flows from Operating Activities					
Receipts from Customers	\$1,454,261	\$3,308,859	\$1,948,966	\$917,488	\$7,629,575
Payments to Suppliers	(487,785)	(977,688)	(871,716)	(295,229)	(2,632,419)
Payments to Employees	(475,858)	(823,474)	(1,128,774)	(1,609,306)	(4,037,412)
Other Receipts/Payments	-	-	(5,000)	(18,000)	(23,000)
Net Cash Provided (Used) by Operating Activities	490,618	1,507,697	(56,525)	(1,005,047)	936,744
Cash Flows from Non-Capital Financing Activities					
Transfers from Other Funds	-	-	-	1,009,300	1,009,300
Non Capital Grant Proceeds	-	-	71,012	-	71,012
InterFund Loan	-	-	210,251	-	210,251
Net Cash Provided (Used) by Non-Capital Financing Activities	-	-	281,263	1,009,300	1,290,563
Cash Flows from Capital and Related Financing Activities					
Capital Contributions	121,308	206,906	-	-	328,214
Special Assessment Receipts	-	1,036,171	-	-	1,036,171
Purchases of Capital Assets	(95,249)	(70,488)	(134,773)	-	(300,510)
Proceeds from Long-Term Debt	-	504,125	-	-	504,125
Principal Paid on Capital Debt	-	(1,206,719)	(50,703)	-	(1,257,422)
Interest Paid on Capital Debt	-	(238,449)	(3,501)	-	(241,951)
Other Receipts and/or Payments	10,554	1,186	3,309	35,522	50,571
Net Cash Provided (Used) by Capital and Related Financing Activities	36,613	232,731	(185,668)	35,522	119,198
Cash Flows from Investing Activities					
Interest and Dividends	33,574	17,058	7,904	-	58,536
Net Cash Provided (Used) by Investing Activities	33,574	17,058	7,904	-	58,536
Net Increase/(Decrease) in Cash and Cash Equivalents	560,805	1,757,487	46,973	39,775	2,405,040
Balances - Beginning of the Year	5,099,268	1,097,616	1,305,143	312,796	7,814,822
Balances - End of the Year	<u>\$5,660,073</u>	<u>\$2,855,103</u>	<u>\$1,352,117</u>	<u>\$352,571</u>	<u>\$10,219,863</u>

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

CITY OF BAINBRIDGE ISLAND, WASHINGTON
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2012

Page 2 of 2

	Water	Sewer	Storm and Surface Water Management	Building and Development Services	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)					
Operating Income/(Loss)	\$200,018	\$520,967	\$(256,096)	\$(992,002)	\$(527,113)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities					
Depreciation	294,928	959,595	209,140	737	1,464,401
Settlements	-	-	(5,000)	(18,000)	(23,000)
Change in Assets and Liabilities					
Receivables - Net	29,904	23,346	8,473	23	61,745
Inventories	(401)	-	(916)	-	(1,317)
Accounts Payable	(31,856)	3,403	(23,112)	2,746	(48,818)
Accrued Expenses	(3,465)	(2,213)	7,422	(3,432)	(1,687)
Compensated Absences	1,489	2,599	3,565	4,881	12,534
Net Cash Provided by Operating Activities	<u>\$490,618</u>	<u>\$1,507,697</u>	<u>\$(56,525)</u>	<u>\$(1,005,047)</u>	<u>\$936,744</u>

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

CITY OF BAINBRIDGE ISLAND, WASHINGTON

Statement of Net Position

Fiduciary Funds

As of December 31, 2012

ASSETS	<u>Agency Funds</u>
Cash and Cash Equivalents	<u>\$ 414,413</u>
Total Assets	<u>\$ 414,413</u>
LIABILITIES	
Custodial Accounts Payable	<u>\$ 414,413</u>
Total Liabilities	<u>\$ 414,413</u>

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

CITY OF BAINBRIDGE ISLAND, WASHINGTON

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The City of 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 non-charter 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. The seven part-time council members are elected to four-year terms except for transition terms; the mayor is selected by the council from among its members to serve a one-year term. The City Manager is appointed by the City Council for an indefinite term. The City is a general-purpose government and provides the following major types of services: police, water supply/treatment/distribution, sewage collection and treatment, storm water (drainage) collection, street maintenance and construction, planning and zoning, parks and boat docks, judicial and general administration. In accordance with GAAP the financial statements represent those activities of the City, the primary government. The City has one component unit, the newly created Bainbridge Island Transportation Benefit District (TBD) although the TBD had no assets and no activity for 2012. The City is not involved in, nor does it have an equity interest in, any joint ventures. Other local governments provide public education, fire suppression, library and most park services.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary 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.

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 support 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.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds 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.

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.

In June 2011 the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources and Deferred Inflows of Resources, which is effective for periods beginning after December 15, 2011. The City implemented this new pronouncement in the current year. The City did not have any transactions or balances that qualified as deferred outflows or inflows of resources as defined by GASB Statement No. 63. This pronouncement further requires that “Capital Assets, net of debt” now be titled “Net Investment in Capital Assets” and that “Net Assets” now be titled “Net Position.”

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

General Fund

The general fund is the primary 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.

Street Fund

The street fund accounts for restricted gas tax revenue received from the State of Washington. Supplemental funding, as needed, comes from the general fund and the real estate excise tax fund. These resources are used for non-capital transportation-related activities as well as the City’s annual street preservation program.

General Obligation Bond Fund

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

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.

Storm & Surface Water Management (SSWM) Fund

The SSWM fund accounts for all activities related to providing storm drainage and related services to the island-wide community.

Building & Development Services Fund

The City classifies its building and 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 and development services fund consists of two sub-funds for these activities that separately track 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 City has either

no claim or has a junior claim to a third party. Included are construction retainage accounts, performance bonds and money held in transit to Kitsap County or the State of Washington.

As a general rule, the effect of interfund activity has been eliminated for the government-wide financial statements. The major exception to this rule is the economic (interfund) rent charged to the City's street and proprietary funds to reimburse the general fund for the cost of owning and operating the city hall and public works yard facilities. 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 only other exceptions to this general rule are the payment of City utility taxes by the City's own utilities, the payment of City utility charges by various funds and the payment of planning and building permits for construction activity on City facilities.

Amounts reported as program revenues include charges to customers and operating 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 proprietary 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 funds on the modified accrual basis of accounting. Expenditures are limited to the following: the total appropriated for the current year by fund total; funds from the issuance of long-term debt; and expenditures required for emergencies. All unencumbered budgeted amounts lapse at year-end.

Encumbrance accounting is employed in the funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are closed and reappropriated, at the City Council's discretion, in the subsequent year.

2. Amending the Budget

The City Manager is authorized to transfer individual appropriations within any department during the current fiscal year. Any revisions that transfer appropriations between departments, increase any fund's total expenditures, increase any capital construction project's total expenditures, or affect the number of authorized employee positions, salary ranges or hours 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.

E. Assets, Liabilities and Equities

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

1. Cash and Cash Equivalents

For purposes of the financial statements, including the statement of cash flows, 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, 2012 the City was holding \$20,346,200 in cash and cash equivalents which included \$414,413 in fiduciary funds.

It is the City's policy to invest all temporary cash surpluses. At December 31, 2012 the City was holding \$19,119,579 in short-term residual investments of surplus cash. This amount is classified on the balance sheet with cash and cash equivalents. Interest on these investments is distributed to various funds proportional to their cash balances.

2. Receivables

Taxes receivable are not recognized on the fund financial statements because, 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, 2012 and 2011 the City had taxes receivable of \$1,355,531 and \$1,452,442 respectively.

Special assessments are recorded when levied, in the local improvement district (LID) debt service fund for regular LIDs and in the enterprise funds for utility LIDs. Long-term assessments receivable in the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2012 and 2011 the City had \$36,109 and \$38,259, respectively, in delinquent special assessments receivable.

For Municipal Court receivables the City recognizes only those fines or forfeits that are on a court-ordered time payment plan or that have been sent to collection. This is partly because amounts that have been levied are still subject to adjudication and possible commutation and because the State's computer system used by the City converts the amounts owed to fee amounts set by the State. The receivable recognized for 2012 is \$1,507,067 (\$1,254,181 considered uncollectible) compared to \$1,481,929 (\$1,224,073 considered uncollectible) for 2011.

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.

3. 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 2012 there was a \$1,374,684 interfund loan outstanding due from the SSWM fund to the street fund. The City also has reimbursable grants and other receivables due from the State and Federal governments. Those amounts totaled \$544,917 and \$398,332 for fiscal years 2012 and 2011, respectively.

4. Inventories

The City records inventories in the proprietary funds and at the governmental-wide level only. Inventories consist of expendable supplies held for consumption. Costs are recorded as expenditures at the time of invoicing 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. A comparison to market value is not considered necessary.

5. Capital Assets

Capital assets are reported in the government-wide financial statements. They include property, plant, equipment and infrastructure assets (e.g. roads, sidewalks, and similar items). Capital assets are defined as assets with an initial, individual cost of more than \$5,000 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 are 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	5
Buildings & Improvements	40
Roads – Unpaved and Paved	2 and 25
Sewage Treatment Plant	30
Water & Sewer Mains	66
Other Utility Infrastructure	10 to 20

For further detail see Note No. 4 – Capital Assets.

6. Compensated Absences

Compensated absences are absences from work for which employees will be paid. Those absences are vacation, sick leave, accrued compensating time off for overtime hours worked, floating holidays and time spent on standby. All compensated absences are accrued at year-end in the government-wide and proprietary fund financial statements.

Vacation pay may be accumulated up to a maximum of 320 hours and is payable upon termination, resignation, retirement or death. Compensating time off may be accumulated up to a maximum of 160 hours (120 for law enforcement officers) and may be taken at any time or 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 and may be taken at any time or paid out at the employee's request. Floating holidays represent 1) holidays worked and subsequently accrued by law enforcement officers that may be taken at any time or paid out at the officer's request and 2) one floating holiday per non-law enforcement employee per year. Non-law enforcement employees can carry their floating holidays into the next year but they must be used before any vacation leave time and they are not payable upon separation from City employment.

Sick leave may accumulate up to 1,040 hours. Except as noted below for law enforcement officers, upon separation from City employment outstanding sick leave is not paid to the employee. Accumulations of over 1,040 hours are paid down annually at ½ the employee's current rate of pay. In addition, law enforcement officers, upon retirement, are paid ¼ of their sick leave balance at their then current rate of pay. Because there is no commitment to pay out accrued but unpaid management leave, wellness time or sick leave, and because law enforcement retirement dates are not generally known in advance, they are not shown as liabilities.

Total liability for compensated absences as of December 31, 2012 and 2011 is as follows:

	2012	2011
Vacation	\$709,906	\$677,973
Compensating Time	66,780	67,124
Standby Time	30,294	25,517
Floating Holidays	68,108	67,911
Total	\$875,088	\$838,525

7. Other Current Liabilities

These accounts consist of accrued wages, employee benefits and interest expense.

8. Long-Term Debt

See Note No. 7 – Long-Term Debt.

9. Unearned Revenues

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

10. Fund Balance

Categories of Fund Balance

Governmental funds use a fund balance presentation of equity. Fund balance is categorized as non-spendable, restricted, committed, assigned or unassigned. The use of a particular category is based largely upon the extent to which the City must observe constraints imposed on the use of the resources.

Non-spendable fund balance represents amounts that cannot be spent because they are either not in a spendable form (such as long-term receivables or inventory) or legally required to remain intact (such as the principal of a permanent fund).

Restricted fund balance represents amounts with external constraints placed on their use (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.

Committed fund balance represents amounts that can only be used for specific purposes imposed by the City's highest level of decision-making authority, a City Council ordinance. Committed resources cannot be used for any other purpose unless the City Council removes or changes the specified use through passage of another ordinance.

Assigned fund balance represents amounts reflecting the City's intended use of resources. Assigned fund balance can be designated at any level of decision making authority below an ordinance (resolution, City Council motion or by a committee or official delegated by the City Council).

Unassigned fund balance represents either amounts with no restrictions on their use or general fund stabilization reserves (see below) set up by City Council action at an authority level below an ordinance.

Fund balance constraints as listed in aggregate on the governmental funds balance sheet statement at December 31, 2012 were as follows:

	General Fund	Street Fund	GO Bond Fund	Other Governmental Funds	Total Governmental Funds
Non-spendable:					
Inventory	\$ 12,583	\$ 141,657	\$ -	\$ -	\$ 154,239
Total Non-spendable	\$ 12,583	\$ 141,657	\$ -	\$ -	\$ 154,239
Restricted:					
Police Investigations	\$ 33,804	\$ -	\$ -	\$ -	\$ 33,804
Police Marine	10,000	-	-	-	10,000
PEG Capital	124,827	-	-	-	124,827
Street Fund	-	1,374,684	-	-	1,374,684
Real Estate Excise Tax	-	-	-	49,268	49,268
Hotel/Motel Tax	-	-	-	117,305	117,305
LID Collections	-	-	-	85,335	85,335
LTGO Bond Proceeds	-	-	-	18,076	18,076
LID Bond Proceeds	-	-	-	3,783	3,783
Total Restricted	\$ 168,631	\$ 1,374,684	\$ -	\$ 273,766	\$ 1,817,081
Committed:					

Public Art	\$ 161,512	\$ -	\$ -	\$ -	\$ 161,512
Affordable Housing	8	-	-	-	8
Street Fund	-	35,429	-	-	35,429
Floor Area Ratio - Public Amenities	-	-	-	473	473
Floor Area Ratio - Agriculture	-	-	-	58,882	58,882
GO Bond Fund	-	-	7	-	7
Construction Fund	-	-	-	407,318	407,318
Total Committed	\$ 161,520	\$ 35,429	\$ 7	\$ 466,673	\$ 663,629
Assigned:					
Capital Impr. Opportunity Reserve	\$ 2,005,941	\$ -	\$ -	\$ -	\$ 2,005,941
Total Assigned	\$ 2,005,941	\$ -	\$ -	\$ -	\$ 2,005,941
Unassigned:					
General Fund	\$ 5,977,986	\$ -	\$ -	\$ -	\$ 5,977,986
Construction Fund	-	-	-	\$ (178,096)	\$ (178,096)
Total Unassigned	\$ 5,977,986	\$ -	\$ -	\$ (178,096)	\$ 5,799,890
Total Fund Balance	\$ 8,326,661	\$ 1,551,769	\$ 7	\$ 562,344	\$ 10,440,780

In recent years the City Council has passed, via resolution, two general fund stabilization policies in the form of reserves. These reserves are included in the general fund unassigned balance above and are as follows.

The emergency reserve is built up through the sale of surplus property and has a balance of \$404,878 at December 31, 2012. The reserve was set up to provide for unexpected emergencies that cannot be reasonably accommodated in the current budget or by the contingency reserve (see below). Items specifically allowed for expenditure of emergency reserve funds are as follows:

- Major financial loss caused by fire, flood, explosion, storm, earthquake, terrorism or similar incident.
- For the immediate preservation of order or public health, or for the restoration of public property which has been destroyed.
- For the payment of claims for personal injuries or property damage that are not covered by insurance.
- To meet mandatory expenditures required by law enacted since the previous budget was adopted.

The contingency reserve is built up through annual budget appropriations and has a balance of \$400,000 at December 31, 2012. This reserve was set up to provide for unexpected needs not included in the annual budget and minor shortfalls in budgeted appropriations. The funds may not be used for items that can be reasonably deferred to the following year. It may also not be used for items considered but not funded in the current budget unless conditions or circumstances have substantially changed. No single appropriation can exceed 20% of the original contingency reserve balance at the beginning of the year.

Expenditures from the emergency reserve and the contingency reserve require a vote of not less than five City Council members or a unanimous quorum.

In addition to the two general fund stabilization arrangements set up as the emergency and contingency reserves, the City Council adopted a minimum fund balance policy, through resolution, for the general fund. This was defined as the excess of current assets over current liabilities that are unreserved, undesignated and unrestricted. For December 31, 2012 and 2011 the City Council specified goals of \$3,000,000 and \$1,500,000, respectively. Unassigned general fund balance at December 31, 2012 and 2011 was \$5,977,986 and \$4,310,504, or \$5,173,106 and \$3,502,506 after emergency and contingency reserves.

Deficit Fund Balance

The capital construction fund had negative unassigned fund balance of \$178,096 at December 31, 2012. This is normal due to the reimbursable nature of street construction grants. The deficit was eliminated in March 2013 with the receipt of \$225,622 in Winslow Way reconstruction grant funds.

Negative Unrestricted Net Position

The SSWM fund had a negative unrestricted net position of \$32,913 at December 31, 2012. This came about from City Council's decision to require the SSWM fund to repay storm & surface water management utility fees collected from 2008 through 2012. The resulting interfund loan is largely responsible for the negative unrestricted net position. This loan is scheduled to be repaid by year-end 2013.

F. Other Accounting and Reporting Changes

Effective January 1, 2012 the City adopted a correction of an error to properly account for inventories in the fund financial statements rather than in the entity-wide financial statements. This change is required by the National Council on Governmental Accounting Statement No. 1. This change resulted in \$12,583 and \$141,657 in inventories being recognized on the general fund and street fund balance sheet statements, respectively. \$154,239 in inventories was removed from the entity-wide Governmental Activities section of the statement of net position.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions and no funds exceeded authorized budgets.

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

The City's deposits are entirely covered by the Federal Deposit Insurance Corporation 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, bankers' acceptances and deposits in Washington State financial institutions. All funds are invested in the Washington State Treasurer's Investment Pool, the Kitsap County Treasurer's Investment Pool or Sterling Bank's Government Investment Pool. These funds are marked to market monthly by those entities. All of these 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 does not invest in derivatives (because of the difficulty in assessing risk). The City has no investments subject to risk categorization. At December 31, 2012 the City held the following investments not subject to categorization:

Investment in State Treasurer's Investment Pool *	\$ 1,180,548
Investment in Kitsap County Treasurer's Investment Pool *	15,933,090
Investment in Sterling Bank Governmental Investment Pool *	2,005,941
Total Investments *	\$ 19,119,579

* 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 4 – CAPITAL ASSETS

A. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2012 was as follows:

Governmental Activities	Beginning Balance 01/01/2012	Increases	Decreases	Ending Balance 12/31/2012
Capital Assets not depreciated:				
Land	\$ 68,900,449	\$ -	\$ (5,317,597)	\$ 63,582,851
Construction In Progress	164,538	268,933	-	433,471
Development Rights (Intangible)	880,000	-	-	880,000
Total Capital Assets not depreciated	\$ 69,944,987	\$ 268,933	\$ (5,317,597)	\$ 64,896,322
Capital Assets, Depreciable:				
Buildings	\$ 15,742,917	\$ 603,198	\$ -	\$ 16,346,115
Machinery and Equipment	7,638,695	802,936	(2,023,352)	6,418,279
Infrastructure	36,917,843	1,430,700	(6,000)	38,342,543
Total Capital Assets, depreciable	\$ 60,299,455	\$ 2,836,834	\$ (2,029,352)	\$ 61,106,937
Less Accumulated Depreciation for:				
Buildings	\$ (4,764,503)	\$ (428,415)	\$ -	(5,192,918)
Machinery and Equipment	(6,333,669)	(302,133)	1,325,689	(5,310,114)
Infrastructure	(13,583,532)	(1,587,317)	3,000	(15,167,849)
Total Accumulated Depreciation	\$ (24,681,704)	\$ (2,317,865)	\$ 1,328,689	\$ (25,670,881)
Total Capital Assets, depreciable, net	\$ 35,617,751	\$ 518,969	\$ (700,663)	\$ 35,436,056
Total Governmental Activities Capital Assets, net	\$ 105,562,737	\$ 787,902	\$ (6,018,261)	\$ 100,332,379

Business-Type Activities	Beginning Balance 01/01/2012	Increases	Decreases	Ending Balance 12/31/2012
Capital Assets not depreciated:				
Land	\$ 1,796,865	\$ -	\$ -	\$ 1,796,865
Construction In Progress	179,110	265,261	(205,559)	238,812
Total Capital Assets not depreciated	\$ 1,975,975	\$ 265,261	\$ (205,559)	\$ 2,035,678
Capital Assets, depreciable:				
Buildings	\$ 40,619	\$ -	\$ -	\$ 40,619
Computer Software	32,365	-	-	32,365
Machinery and Equipment	2,267,237	909,070	(1,257,639)	1,918,668
Infrastructure	56,517,430	201,543	(10,649)	56,708,325
Total Capital Assets, depreciable	\$ 58,857,652	\$ 1,110,613	\$ (1,268,288)	\$ 58,699,977
Less accumulated depreciation for:				
Buildings	\$ (9,407)	\$ (661)	\$ -	\$ (10,068)
Computer Software	(32,365)	-	-	(32,365)

Machinery and Equipment	(2,003,780)	(96,999)	385,563	(1,715,215)
Infrastructure	(14,124,794)	(1,366,740)	10,649	(15,480,886)
Total Accumulated Depreciation	\$ (16,170,345)	\$ (1,464,401)	\$ 396,212	\$ (17,238,534)
Total Capital Assets, depreciable, net	\$ 42,687,307	\$ (353,787)	\$ (872,076)	\$ 41,461,443
Total Business-Type Activities Capital Assets, net	\$ 44,663,282	\$ (88,526)	\$ (1,077,635)	\$ 43,497,121

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

Governmental Activities	2012	2011
General Government	\$ 317,081	\$ 319,624
Judicial	-	-
Public Safety	152,126	126,226
Physical Environment	4,324	4,324
Transportation	1,575,474	1,544,667
Economic Environment	-	-
Culture and Recreation	268,860	244,373
Total Depreciation - Governmental Activities	\$ 2,317,865	\$ 2,239,213

Business-Type Activities	2012	2011
Water Utility	\$ 294,928	\$ 310,791
Sewer Utility	959,595	960,822
Storm and Surface Water Management Utility	209,140	207,019
Building and Development Services	737	737
Total Depreciation - Business-Type Activities	\$ 1,464,401	\$ 1,479,368

B. CONSTRUCTION COMMITMENTS

The City had two major construction projects in progress at December 31, 2012. However both projects, Eagle Harbor Beach Mains and Rockaway Beach Road Reconstruction, were in design stages only and no construction commitments were outstanding at year-end.

NOTE 5 – PENSION PLANS

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

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

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

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

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

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

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

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

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

optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

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

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

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

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

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

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
Total	261,705

Funding Policy

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

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

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

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

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

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

** The employer rate for state elected officials is 10.74% for Plan 1 and 7.15% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.

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

Members participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	9.71%	9.71%	9.71%**
Employer-Local Government*	7.21%	7.21%	7.21%**
Employee-State Agency	9.76%	9.10%	7.50%***
Employee-Local Government	12.26%	11.60%	7.50%***

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

** Plan 3 defined benefit portion only.

***Minimum rate.

Both the City and 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
2012	\$ 16,468	\$ 368,868	\$ 102,115
2011	\$ 6,049	\$ 312,447	\$ 85,994
2010	\$ 8,427	\$ 291,023	\$ 71,465

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

Plan Description

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

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

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.

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

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

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

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

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

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from

an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

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

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

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

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

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

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

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

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

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

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

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

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

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

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

Retirees and Beneficiaries Receiving Benefits	9,947
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	656
Active Plan Members Vested	13,942
Active Plan Members Non-vested	3,113
Total	27,658

Funding Policy

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

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

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

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

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

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

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

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

	LEOFF Plan 1	LEOFF Plan 2
2012	\$0	\$88,186
2011	\$0	\$97,799
2010	\$0	\$96,270

NOTE 6 – 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 153 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 \$750,000, 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.

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, 2012 nine payments were made that were not fully covered by insurance. \$5,000 was paid in November 2012 to settle a claim regarding seasonal flooding on a homeowner's property. \$1,369 was paid in April 2012 to settle a property line dispute. \$18,000 was paid in January 2012 to settle a claim regarding work done without a building permit and the needed corrective actions. \$77,210 was paid in December 2011 to settle a dispute over reduced hours for the City's Municipal Court Judge. \$1,553 was paid in February 2011 to settle a boundary line dispute and a dock construction. \$2,616 was paid in February 2011 to settle a wetland buffer restriction and limited access dispute. \$17,000 was paid in July 2010 to settle a road construction case. \$1,000 was paid in March 2010 to settle a boundary line dispute. \$31,328 was paid in January 2010 in partial settlement of a utility rate and bond case.

NOTE 7 - 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 one local improvement district bond (LID) outstanding and one of its Washington State Public Works Trust Fund (PWTF) loans is designated as revenue debt and another as LID debt. 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 although 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. These notes are considered obligations of the general government and are being repaid with general government revenue sources.

Long-Term debt reported on the statements of net position at December 31, 2012 is comprised of the following:

Type of Debt or Related Item	Governmental Activities	Business-Type Activities
Unlimited Tax General Obligation Bonds	\$ 5,730,000	\$ -
Limited Tax General Obligation Bonds	12,865,000	5,085,000
Limited Tax General Obligation Long-Term Debt	832,206	3,713,246
Revenue Obligation Long-Term Debt	-	2,800,113
Local Improvement District Obligation Long-Term Debt	411,000	3,570,000
Long-Term Debt analyzed in this Note below	19,838,206	15,168,358
Other Components of Debt:		
Capital Leases - See Note No. 7.C.2.	115,624	-
Other Post Employment Benefits - See Note No. 12	165,671	-
Compensated Absences - See Note No. 1.E.6.	499,490	375,598
Unamortized Bond Discounts and Premiums	199,110	176,266
Unamortized Loss on Refunding of Prior Long-Term Debt	(326,106)	(3,637)
Long-Term Washington State EECBG Grant Obligation - See Note No. 7.B.	100,000	-
Total General Long-Term Debt reported on the Statement of Net Position	\$ 20,591,994	\$ 15,716,586

General Obligation Bonds currently outstanding are as follows:

Purpose	Interest Rates	Governmental Activities	Business-Type Activities
Open Space Acquisitions	2.50 - 4.70%	\$ 5,730,000	\$ -
Roads, Open Space and Parks	3.25 - 4.70%	4,905,000	-
Refinance City Hall and Facility Construction Bonds	3.00 - 5.00%	7,960,000	-
Wastewater Treatment Plant Upgrade Bonds	2.00 - 4.00%	-	5,085,000
Total General Obligation Bonds		\$ 18,595,000	\$ 5,085,000

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

Year Ending	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 1,905,000	\$ 772,873	\$ 410,000	\$ 180,550
2014	1,975,000	702,179	425,000	172,350
2015	2,055,000	628,806	200,000	163,850

2016	2,125,000	552,863	205,000	157,850
2017	2,055,000	461,607	210,000	151,700
2018 - 2022	5,780,000	1,253,803	1,185,000	635,600
2023 - 2027	2,570,000	298,695	1,440,000	379,400
2028 - 2032	130,000	2,925	1,010,000	81,800
Total	\$ 18,595,000	\$ 4,673,751	\$ 5,085,000	\$ 1,923,100

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

Purpose	Interest Rates	Governmental Activities	Business-Type Activities
Purchase 15 acres of agricultural land	7.60%	\$ 349,000	\$ -
PWTF Loan for Street Improvements	1.00%	104,568	-
PWTF Loan for Emergency Storm Street Repairs	3.00%	378,638	-
PWTF Loan Storm Drain Decant Facility Design	0.50%	-	114,541
PWTF Loan Sewage Treatment Plant Design	0.50%	-	253,050
PWTF Loan Storm Drain Decant Facility Constr.	0.50%	-	535,052
PWTF Loan Sewage Treatment Plant Constr. Loan #1	0.50%	-	2,738,103
PWTF Loan Eagle Harbor Sewer Beach Mains Design	0.50%	-	72,500
Total Other General Obligation Debt		\$ 832,206	\$ 3,713,246

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

Year Ending	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 158,520	\$ 38,929	\$ 286,945	\$ 18,566
2014	158,520	30,270	286,945	17,132
2015	158,520	21,612	286,945	15,697
2016	72,665	12,953	286,945	14,262
2017	23,665	8,519	286,945	12,827
2018 - 2022	118,325	31,948	1,434,725	42,616
2023 - 2027	118,325	14,199	839,265	8,466
2028 - 2032	23,665	710	4,531	23
Total	\$ 832,206	\$ 159,140	\$ 3,713,246	\$ 129,588

Revenue Obligation Long-Term Debt currently outstanding is as follows:

Purpose	Interest Rates	Governmental Activities	Business-Type Activities
PWTF Loan Sewage Treatment Plant Constr. Loan #2*	0.50%	\$ -	\$ 2,800,113
Total Revenue Obligation Debt		\$ -	\$ 2,800,113

The annual debt service requirements to maturity for Revenue Obligation Debt are as follows:

Year Ending	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	\$ -	\$ -	\$ 200,008	\$ 14,001
2014	-	-	200,008	13,000
2015	-	-	200,008	12,001
2016	-	-	200,008	11,000
2017	-	-	200,008	10,001
2018 - 2022	-	-	1,000,040	35,001
2023 - 2027	-	-	800,033	10,000
Total	\$ -	\$ -	\$ 2,800,113	\$ 105,004

Local Improvement District (LID) Obligation Long-Term Debt currently outstanding is as follows:

Purpose	Interest Rates	Governmental Activities	Business-Type Activities
PWTF Loan South Island Sewer Lines Constr.*	0.50%	\$ -	\$ 3,570,000
Local Improvement District No. 22 Bonds Street Constr.	4.56%	\$ 411,000	
Total LID Obligation Debt		\$ 411,000	\$ 3,570,000

The annual debt service requirements to maturity for LID Obligation Debt are as follows:

Year Ending	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 37,364	\$ 26,899	\$ 297,500	\$ 17,850
2014	37,364	8,519	297,500	16,363
2015	37,364	7,667	297,500	14,875
2016	37,364	6,815	297,500	13,388
2017	37,364	5,963	297,500	11,900
2018 - 2022	186,817	17,038	1,487,500	37,187
2023 - 2027	37,363	852	595,000	4,462
Total	\$ 411,000	\$ 73,753	\$ 3,570,000	\$ 116,025

A. Changes in Long-Term Liabilities

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

	Beginning Balance Jan. 1, 2012	Additions	Reductions	Ending Balance Dec. 31, 2012	Due Within One Year
Governmental Activities:					
Unlimited Tax General Obligation Bonds	\$ 6,130,000	\$ -	\$ (400,000)	\$ 5,730,000	\$ 415,000
Limited Tax General Obligation Bonds	14,305,000	-	(1,440,000)	12,865,000	1,490,000

Local Improvement District Bonds	755,300	-	(344,300)	411,000	37,364
Total Bonds Payable	21,190,300	-	(2,184,300)	19,006,000	1,942,364
Land Purchase Contracts	449,000	-	(100,000)	349,000	100,000
Capital Leases	170,797	-	(55,173)	115,624	56,744
Loans from Other Gov'ts	541,726	-	(58,520)	483,206	58,520
Compensated Absences	475,461	246,446	(222,417)	499,490	150,000
OPEB Payable	139,565	79,129	(53,023)	165,671	50,000
Total Governmental Activity long-term liabilities	\$ 22,966,849	\$ 325,575	\$ (2,673,432)	\$ 20,618,991	\$ 2,357,628
Business-Type Activities:					
Limited Tax General Obligation Bonds	\$ 5,490,000	\$ -	\$ (405,000)	\$ 5,085,000	\$ 410,000
Loans from Other Gov'ts	10,431,655	504,125	(852,421)	10,083,358	852,422
Compensated Absences	363,064	128,552	(116,018)	375,598	85,000
Total Business-Type Activity long-term liabilities	\$ 16,284,719	\$ 632,677	\$ (1,373,440)	\$ 15,543,957	\$ 1,347,422

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

B. Long-term Washington State EECBG Grant Obligation

In 2011 the City entered into a grant agreement with the Washington State Department of Commerce (Commerce) for the U.S. Department of Energy's Energy Efficiency and Conservation Block Grant (EECBG) program. As part of this program the City received \$100,000 in grant funds which it remitted to Kitsap Credit Union (KCU) to fund loan loss reserves allowing KCU to offer lower than market interest rates for energy efficiency home improvement loans. This loan program can run up to 20 years at which time any remaining loan loss reserve funds must be returned to the City for use in other Commerce and EECBG approved programs, or alternatively, returned to Commerce.

C. Leases

1. Operating Leases

The City has operating leases for office space, storage space and equipment. All leases are cancelable by the City with 30 to 90 days notice.

2. Capital Leases

Capital lease obligations outstanding at December 31, 2012 are as follows:

Purpose	Interest Rate	Amount
Capital Lease – Police Vehicles & Survey Equipment	3.23%	\$ 70,080
Capital Lease – Police Vehicles	4.51%	45,544
Total Capital Lease Obligations		\$ 115,625

The assets acquired through Capital Leases are as follows:

Asset	Governmental Activity	Business-Type Activity
Telephone System	\$ 387,392	\$ -
Vehicles	545,675	
Survey Equipment	28,000	
Less Accumulated Depreciation	(850,437)	
Total	\$ 110,629	\$ -

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2012 are as follows:

Year Ending December 31	Governmental Activity	Business-Type Activity
2013	60,536	\$ -
2014	60,536	
Less Interest	(5,105)	
Present Value of Minimum Lease Payments	\$ 115,967	\$ -

NOTE 8 – 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 in which payment is considered probable (see Note No. 6 – Risk Management). Except as disclosed below, 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 except as explained in Note No. 1. E. 6. – Compensated Absences. However, employees can draw on that time in the future if sick or injured. As of December 31, 2012 and 2011 the value of total accumulated sick leave was \$1,369,069 and \$1,274,203 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, 2012 and 2011 was \$99,931 and \$99,358 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. In 2010 the City sold a portion of the site to Bainbridge Disposal. The City still retains a portion of the site and the related potential future remedial expenses.

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, in 2006 the City purchased a 10 year liability policy for protection against personal injury claims.

NOTE 9 – INTERFUND BALANCES AND TRANSACTIONS

A. Interfund Balances

At year-end December 31, 2012 the City had a \$1,374,684 interfund loan due from the SSWM fund to the street fund. This loan came about when the City Council recently decided to exempt the street fund from SSWM utility fees, retroactive back to 2008. The loan is on schedule to be repaid by year-end 2013.

B. Interfund transfers

Interfund transfers for the year ended December 31, 2012 were as follows:

	Transfers from General Fund	Transfers from Real Estate Excise Tax Fund	Transfers from Floor Area Ratio - Public Amenities Fund	Total	Purpose of Transfer
Receiving Fund:					
Streets Fund	\$ 153,300	\$ 1,500,000	\$ -	\$ 1,653,300	Operating Subsidy
General Obl. Bond Fund	2,082,100			2,082,100	Debt Service
Construction Fund	493,560		38,552	532,112	Construction Support
Bldg. & Dev. Svcs. Fund	1,009,300			1,009,300	Operating Subsidy
Total Governmental Activities	\$ 3,738,260	\$ 1,500,000	\$ 38,552	\$5,276,812	

As discussed in Note No. 1. E. 3. (Interfund and Intergovernmental Receivables) the City also paid internal economic rent, internal utility taxes and internal sewer, water and storm and surface water utility fees for various City facilities in 2012 but chose to treat these activities as quasi-external transactions as allowed under GAAP.

The City does not split most of its tax receipts between funds; rather, it recognizes them in its general fund, certain special revenue funds and the general obligation bond fund (for certain voted bonds). As a result, the City routinely transfers money from the general and the real estate excise tax funds to the street and building development services funds as operating subsidies and to the general obligation bond fund to pay for debt service. As shown above, these transfers are often significant.

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 government-wide Statement of Activities and Statement of Net Position.

NOTE 10 – RECEIVABLE AND PAYABLE BALANCES

A. Receivables

Receivables (net of amounts determined to be uncollectible) at December 31, 2012 were as follows:

	Accounts	Taxes	Special Assessments	Due from Other Governments or Funds	Total
Governmental Activities:					
General Government	\$ 125,376	\$ 1,341,203	\$ -	\$ -	\$ 1,466,579

Public Safety	-	-	-	11,723	11,723
Transportation	19,697	-	440,341	1,862,168	2,322,206
Culture & Recreation	-	14,328	-	8,000	22,328
Judicial	252,886	-	-	-	252,886
Economic Environment	-	-	-	100,000	100,000
Total Governmental Activities	\$ 397,959	\$ 1,355,531	\$ 440,341	\$ 1,981,890	\$ 4,175,721
Business-Type Activities:					
Water	\$ 23,720	\$ -	\$ -	\$ -	\$ 23,720
Sewer	64,810	-	2,546,374	-	2,611,184
Storm & Surface Water	131,206	-	-	37,710	168,916
Bldg. & Dev. Svcs.	845	-	-	-	845
Total Business-Type Activities	\$ 220,581	\$ -	\$ 2,546,374	\$ 37,710	\$ 2,804,665

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. (Receivables) for detailed information about the Allowance for Doubtful Accounts in the business type activities.

B. Payables

Payables at December 31, 2012 were as follows:

	Vendors	Salaries and Benefits	Due to Other Governments or Funds	Other	Total
Governmental Activities:					
General Government	\$ 206,621	\$ 168,875	\$ -	\$ -	\$ 375,496
Public Safety	22,754	109,516	-	-	132,271
Transportation	118,338	60,254	-	79,110	257,701
Culture and Recreation	32,039	-	-	38,965	71,004
Judicial	746	19,711	-	-	20,457
Physical Environment	-	-	-	-	-
Economic Environment	45,112	-	-	-	45,112
Health and Human Service	16,399	-	-	-	16,399
Total Governmental Activities	\$ 442,010	\$ 358,356	\$ -	\$ 118,075	\$ 918,441
Business-Type Activities:					
Water	\$ 18,359	\$ 23,255	\$ -	\$ -	\$ 41,614
Sewer	48,053	40,812	-	38,449	127,314
Storm & Surface Water	94,682	46,163	1,374,684	1,624	1,517,152
Bldg. & Dev. Svcs.	6,651	69,827	-	-	76,477
Total Business-Type Activities	\$ 167,745	\$ 180,056	\$ 1,374,684	\$ 40,073	\$ 1,762,558

NOTE 11 – SEGMENT INFORMATION

The City of Bainbridge Island has neither revenue bonds nor 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 wastewater treatment system, 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 2,300 customers, primarily in the Winslow area. Its sewer utility provides wastewater collection in the South Island and Lynwood Center areas to roughly 200 customers, and collection and treatment in the Winslow area to roughly 1,900 customers. Its storm and surface water management utility provides storm drainage facilities throughout the island 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 12 – POSTRETIREMENT BENEFITS OTHER THAN RETIREMENT

The City has no termination benefits other than the accrued compensated absences described in Note No. 1. E. 6. (Compensated Absences) and Note No. 7 (Long-Term Debt) 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 are covered by the City if not payable by worker's compensation, social security, insurance provided by another employer, other pension plan or other similar source. 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 No. 5 (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, 2012. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB. The net OPEB obligation (NOO) of \$165,671 is included as a non-current liability on the statement of net position.

	Fiscal Year Ending 12/31/2012	Fiscal Year Ending 12/31/2011
Determination of Annual Required Contribution:		
Normal Cost at Year End	\$ -	\$ -
Amortization of UAAL*	85,844	89,143
Interest for Year	-	-
Annual Required Contribution	\$ 85,844	\$ 89,143

Determination of Net OPEB Obligation:		
Annual Required Contribution	\$ 85,844	\$ 89,143
Interest on Prior Year Net OPEB Obligation	6,280	4,717
Adjustment to ARC	(12,995)	(9,761)
Annual OPEB Cost	\$ 79,129	\$ 84,099

Contributions Made	\$ (53,023)	\$ (49,366)
Increase in Net OPEB Obligation	\$ 26,106	\$ 34,733

Net OPEB Obligation-Beginning of Year	\$ 139,565	\$ 104,832
Net OPEB Obligation-End of Year	\$ 165,671	\$ 139,565

*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 2012 and the three prior years is as follows:

Fiscal Year Ending	Annual OPEB Cost	Employer Contributions	% of OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	\$ 79,129	\$ 53,023	67%	\$ 165,571
12/31/2011	\$ 84,099	\$ 49,366	59%	\$ 139,565
12/31/2010	\$ 89,535	\$ 44,533	50%	\$ 104,832
12/31/2009	\$ 97,778	\$ 37,948	39%	\$ 59,830

Funded Status and Funding Progress

As of January 1, 2012 the most recent calculation date, the plan was 0% funded. The accrued liability for benefits was \$957,355 and the actuarial value of the assets was \$0 resulting in a UAAL of \$921,921. 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 healthcare cost trends. 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 56.24 was assumed for all active members for determining the actuarial accrued liability. Termination and mortality rates were assumed to follow the LEOFF I termination and mortality rates used in the June 30, 2007 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the statewide LEOFF I medical study performed in 2007. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the actuarial accrued liability (AAL) was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 13 – PRIOR PERIOD ADJUSTMENTS

During 2012 the City had the following prior period adjustments.

- \$5,333,734 in the governmental activities portion of the entity-wide Statement of Activities was the result of a comprehensive analysis of the City's capital assets in preparation for a software upgrade and corrected for land transferred to the Bainbridge Island Metropolitan Parks and Recreation District in prior years.
- \$1,164,433 in the street fund and the SSWM fund corrected for SSWM utility fees charged to the street fund that the City Council rescinded, retroactive to 2008.
- \$154,239 in the governmental activities portion of the entity-wide Statement of Activities moved inventory to the general and street funds in order to comply with governmental accounting standards. See Note No. I.F.
- \$1,879 and \$391 in the water and sewer funds, respectively, corrected for previously disposed of assets.

NOTE 14 – SUBSEQUENT EVENTS

Litigation was filed in May 2012 by AT&T Mobility (formerly New Cingular Wireless) against a number of Washington cities, including the City of Bainbridge Island. The suit claims tax refunds for periods from November 2005 through September 2010. A coalition of cities was recently successful in challenging the filing of this case in a single county, arguing that each individual city must be sued in its county. AT&T is therefore dropping its current lawsuit in King County and will shortly be filing new lawsuits in each of the counties where the city defendants are located. Once those lawsuits are filed, it is anticipated that additional motions will be brought that may decide the outcome of the case. It is legal counsel's opinion that the outcome of this litigation cannot be determined at this time.

NOTE 15 – OTHER DISCLOSURES

Starting in 2011 the City Council and management considered options related to ongoing management and ownership of the City's water utility. The City Council recently chose to issue a Request for Proposals for water utility management services. At this time the City Council has made no decision but is reviewing a proposal submitted by Kitsap County Public Utility District No. 1.

In April 2013 the City Council authorized the Director of Finance and Administrative Service to pursue options for refinancing the City's currently outstanding 2002 and 2004 Unlimited Tax General Obligation Bonds. No refunding has been finalized at this time.

CITY OF BAINBRIDGE ISLAND

REQUIRED SUPPLEMENTAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2012

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 is further restricted in that department expenditures 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, because these are the only two restrictions in force there is no requirement to stay within a fund budget 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 City Manager's authority.

Department	Appropriated Budget	Amended Budget	Actuals	Difference from Amended
Legislative	\$ 101,815	\$ 101,815	\$ 95,543	\$ 6,272
Judicial	503,934	572,434	545,139	27,295
Executive	1,991,244	2,027,744	1,520,892	506,852
Finance	6,449,010	6,464,717	6,237,821	226,896
Public Safety	4,027,196	4,076,781	3,500,944	575,837
Planning	2,640,071	2,802,945	2,369,162	433,783
Public Works	11,605,710	13,265,813	7,498,290	5,767,523
Information Technology	682,186	705,568	686,327	19,241
General Government	8,841,166	9,360,582	8,476,511	884,071
Total	\$ 36,842,332	\$ 39,378,399	\$ 30,930,629	\$ 8,447,770

The 2012 budget was passed in November 2011. The original appropriated budget included \$5,311,170 in interfund transfers. Unspent amounts in the executive department were due to significantly lower outside legal costs than anticipated. Unspent amounts in the public safety department were due to several open positions. Significant unspent amounts in the public works departments were due to unfinished capital projects. Unspent amounts in the general government department were due to planned spending reductions, several vacant positions and lower utility expenses for the street fund due to the City Council's policy change regarding street SSWM fees.

CITY OF BAINBRIDGE ISLAND, WASHINGTON
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Revised		
REVENUES				
Property Taxes	\$ 6,572,979	\$ 6,572,979	\$ 6,697,791	\$ 124,812
Other Taxes	6,773,472	6,773,472	6,663,401	(110,071)
Fees and Fines	235,490	235,490	174,172	(61,318)
Licenses and Permits	566,674	566,674	577,535	10,861
Intergovernmental	452,349	460,918	448,681	(12,236)
Charges for Services	615,895	615,895	564,421	(51,474)
Interest	13,769	13,769	49,981	36,212
Other Revenues	63,400	63,400	89,455	26,055
Total REVENUES	15,294,029	15,302,598	15,265,437	(37,161)
EXPENDITURES				
General Government	3,760,974	3,822,093	3,073,906	748,187
Judicial	604,077	672,577	639,257	33,320
Public Safety	4,121,016	4,146,320	3,761,541	384,779
Physical Environment	865,504	919,886	450,453	469,433
Health and Human Services	271,065	271,065	261,909	9,156
Economic Environment	1,098,374	1,135,927	977,836	158,091
Culture and Recreation	225,941	264,697	238,361	26,336
Debt Service - Principal	169,760	169,760	155,172	14,588
Debt Service - Interest	45,843	45,843	41,471	4,372
Capital Outlay	280,580	333,877	216,757	117,120
Total EXPENDITURES	11,443,136	11,782,046	9,816,665	1,965,381
Operating Income (Loss)	3,850,893	3,520,552	5,448,772	1,928,220
OTHER FINANCING SOURCES/USES				
Proceeds from sale of fixed assets	186,000	187,689	32,723	(154,966)
Proceeds of general long term debt	88,000	88,000	-	(88,000)
Transfers - In	-	50,000	23,350	(26,650)
Transfers - Out	(4,183,277)	(3,837,877)	(3,761,610)	76,267
Total OTHER FINANCING SOURCES/USES	(3,909,277)	(3,512,188)	(3,705,537)	(193,349)
Net Change in Fund Balance	(58,384)	8,363	1,743,235	1,734,871
Fund Balances -- Beginning	6,330,041	6,330,041	6,570,843	240,802
Prior Period Adjustments	-	-	12,583	12,583
Total Ending Fund Balance	\$ 6,271,657	\$ 6,338,404	\$ 8,326,661	\$ 1,988,256

The accompanying notes are an integral part of this financial

CITY OF BAINBRIDGE ISLAND, WASHINGTON
 Budgetary Comparison Schedule
 Special Revenue Fund-Streets
 For the Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Revised		
REVENUES				
Other Taxes	\$ 554,630	\$ 554,630	\$ 588,431	\$ 33,800
Licenses and Permits	43,410	43,410	20,000	(23,410)
Intergovernmental	518,721	518,721	470,608	(48,113)
Charges for Services	-	-	490	490
Other Revenues	327,956	327,956	12,261	(315,694)
Total REVENUES	1,444,717	1,444,717	1,091,790	(352,927)
EXPENDITURES				
General Government	348,029	352,179	344,119	8,060
Public Safety	6,647	6,647	53,622	(46,975)
Physical Environment	11,678	11,678	29,883	(18,205)
Transportation	1,719,362	1,806,105	1,444,209	361,896
Capital Outlay	605,000	620,000	628,002	(8,002)
Total EXPENDITURES	2,690,715	2,796,608	2,499,833	296,775
Operating Income (Loss)	(1,245,998)	(1,351,891)	(1,408,044)	(56,152)
OTHER FINANCING SOURCES/USES				
Transfers - In	1,245,725	1,617,832	1,653,300	35,468
Total OTHER FINANCING SOURCES/USES	1,245,725	1,617,832	1,653,300	35,468
Net Change in Fund Balance	(273)	265,941	245,256	(20,685)
Fund Balances -- Beginning	325	325	423	98
Prior Period Adjustments	-	-	1,306,089	1,306,089
Total Ending Fund Balance	\$ 52	\$ 266,266	\$ 1,551,769	\$ 1,285,503

The accompanying notes are an integral part of this financial

LEOFF I 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
12/31/2012	\$ -	\$ 921,921	\$ 921,921	0%	\$ -	0%
12/31/2011	\$ -	\$ 957,355	\$ 957,355	0%	\$ -	0%
12/31/2010	\$ -	\$ 992,483	\$ 992,483	0%	\$ -	0%
12/31/2009	\$ -	\$ 1,050,090	\$ 1,050,090	0%	\$ -	0%
12/31/2008	\$ -	\$ 1,083,259	\$ 1,083,259	0%	\$ -	0%



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.

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

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

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

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

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

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