

Washington State Auditor's Office
Financial Statements Audit Report

City of Bainbridge Island
Kitsap County

Audit Period
January 1, 2008 through December 31, 2008

Report No. 1002863

Issue Date
January 25, 2010



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

January 25, 2010

Council
City of Bainbridge Island
Bainbridge Island, Washington

Report on Financial Statements

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

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Kitsap County
January 1, 2008 through December 31, 2008**

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Status of Prior Audit Findings

City of Bainbridge Island Kitsap County January 1, 2008 through December 31, 2008

The status of findings contained in the prior years' audit reports of the City of Bainbridge Island is provided below:

1. City management did not follow proper accounting procedures.

Report No. 1000370, dated December 31, 2008

Background

During the 2007 audit, we identified a material weakness. The City bypassed internal controls designed to ensure that revenue and expenditures are reported in the proper period and incorrectly reported \$420,000 of federal grant revenue. Additionally, the City improperly reported an inter-fund loan that had not been approved by City Council.

Status

The condition reported during the 2007 audit has been resolved. Revenue transactions were properly recognized per generally accepted accounting principles and inter-fund loans were properly approved. No material errors or significant deficiencies in internal controls were noted.

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

City of Bainbridge Island
Kitsap County
January 1, 2008 through December 31, 2008

Council
City of Bainbridge Island
Bainbridge Island, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bainbridge Island, Kitsap County, Washington, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 12, 2009.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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

COMPLIANCE AND OTHER MATTERS

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

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

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

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BRIAN SONNTAG, CGFM
STATE AUDITOR

November 12, 2009

Independent Auditor's Report on Financial Statements

City of Bainbridge Island Kitsap County January 1, 2008 through December 31, 2008

Council
City of Bainbridge Island
Bainbridge Island, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bainbridge Island, Kitsap County, Washington, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed on page 6. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bainbridge Island, as of December 31, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 17 to the financial statements, a pending lawsuit has prevented the City from obtaining long-term financing required to complete a major public works project currently under construction. Ongoing financial commitments to that project, along with adverse economic conditions, have caused significant declines in the City's cash balances. The City's cash flow challenges are expected to continue in the near future. As a result, there exists uncertainty about the City's ability to maintain services at present levels under these conditions.

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

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

The management's discussion and analysis on pages 7 through 12 and budgetary comparison on pages 47 through 50 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 12, 2009

Financial Section

**City of Bainbridge Island
Kitsap County
January 1, 2008 through December 31, 2008**

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CITY OF BAINBRIDGE ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008

This discussion and analysis of the City of Bainbridge Island financial results for the calendar and fiscal year ending December 31, 2008, is intended to provide a narrative discussion that will offer parties that read financial statements information to make informed decisions and draw relevant conclusions about the City's financial activities and position. Please read it in conjunction with the accompanying Transmittal Letter, Basic Financial Statements and Notes to the Financial Statements. All figures presented in this discussion and analysis are shown in thousands (000's) of dollars unless otherwise noted.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$115,566. Of this amount, \$8,398 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$3,514 primarily due to dramatic decreases in City revenue, increases in Transportation expenditures and additional transfers required to subsidize Building and Development Services and Debt Service.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$540, a decrease of \$611 in comparison to the prior year.
- Total revenues of the Governmental Activities, net of capital grants, decreased by \$348.
- The City's total debt increased by \$4,780 during the year. This increase was primarily due to scheduled bond redemptions offset by the issuance of \$5,209 in additional Washington State Public Works Trust Fund Loans related to the Sewer Treatment Plant upgrade project.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

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

The Government-Wide Financial Statements can be found on pages 15-16 of this report.

FUND FINANCIAL STATEMENTS

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

Governmental Funds Financial Statements consist of a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances. These statements are prepared on a Modified-Accrual Basis of Accounting. In general, these statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can be easily converted to cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and buildings. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled as the fund balance. This generally indicates the amount that can be used to finance the next year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the year. The balances and activities accounted for in governmental funds are also reported in the governmental activities columns of the Government-Wide Financial Statements.

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

The **Governmental Fund Financial Statements** can be found on pages 17-19 of this report

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

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

The basic **Proprietary Fund Financial Statements** can be found on pages 20-22 of this report.

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

The basic **Fiduciary Fund Financial Statements** can be found on page 23 of this report.

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. The Notes to the Financial Statements can be found on pages 24-41 of this report.

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Overall, the City's financial position has dramatically declined this past year. This required significant decreases in revenue estimates for both Governmental and Business Type Activities. The City's overall financial positions and results of operations for the past two years are summarized below. This information is based on data in the Government-Wide Financial Statements (see pages 15 - 16):

Financial Position	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Cash & Equivalents	\$ 1,630	\$ 2,889	\$ 4,888	\$ 5,604	\$ 6,518	\$ 8,493
Other Assets	2,935	3,735	5,161	5,082	8,096	8,817
Capital Assets	105,781	108,294	38,674	31,886	144,455	140,180
Total Assets	\$110,346	\$114,918	\$ 48,723	\$ 42,572	\$ 159,069	\$ 157,490
Other Liabilities	1,787	2,622	1,988	951	3,775	3,573
Long-Term Debt	26,491	26,190	13,237	8,648	39,728	34,838
Total Liabilities	\$ 28,278	\$ 28,812	\$ 15,225	\$ 9,599	\$ 43,503	\$ 38,410
Invested in Capital Assets net of debt	79,790	82,538	25,821	23,572	105,611	106,110
Restricted	1,336	859	221	0	1,557	859
Unrestricted	942	2,708	7,456	9,402	8,398	12,111
Total Net Assets	\$ 82,068	\$ 86,106	\$ 33,498	\$ 32,974	\$ 115,566	\$ 119,080

- In 2008 total net assets of the City decreased \$3,514 (about 2.95%). Governmental Type assets decreased \$4,038 and Business Type assets increased \$524. The Governmental decreases are primarily due to the dramatic decreases in City revenues, increases in Transportation expenditures and additional transfers required to subsidize Building and Development Services and Debt Service.

Operations	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Charges for Services	\$ 1,873	\$ 1,726	\$ 8,078	\$ 7,178	\$ 9,951	\$ 8,904
Operating Grants & Contributions	515	941	193	50	708	991
Capital Grants	761	436	316	818	1,077	1,254
Property Taxes	6,753	6,528	0	0	6,753	6,528
All Other Taxes	8,580	9,780	0	0	8,580	9,780
Interest	87	199	103	292	189	491
Other Revenues	1,005	825	41	65	1,046	1,194
Total Revenues	\$ 19,574	\$ 20,435	\$ 8,731	\$ 8,403	\$ 28,305	\$ 29,141
Program Expenses:						
General	5,846	6,087	0	0	5,846	6,087
Judicial	658	579	0	0	658	579
Public Safety	4,598	4,133	0	0	4,598	4,133
Physical Environment	1,112	1,113	0	0	1,112	1,113
Transportation	3,582	3,587	0	0	3,581	3,587
Health & Human Svcs	452	156	0	0	452	156
Economic Environment	2,461	2,517	0	0	2,461	2,517
Culture & Recreation	1,030	614	0	0	1,030	614
Water	0	0	2,092	1,774	2,092	1,774
Sewer	0	0	2,243	2,087	2,243	2,087
Storm & Surface Water	0	0	1,839	1,898	1,839	1,898
Bldg & Develop Svcs	0	0	2,865	2,892	2,865	2,892
Total Program Expenses	\$ 19,740	\$ 18,786	\$ 9,039	\$ 8,651	\$ 28,779	\$ 27,437
Special Item	(2,254)	302	(240)	0	(2,494)	302
Transfers In	163	0	1,237	1,171	1,400	1,171
Transfers Out	(1,237)	(1,171)	(163)	0	(1,400)	(1,171)
Changes in Net Assets	(3,494)	780	524	923	(2,968)	1,703
Beginning Net Assets	86,106	85,326	32,974	32,051	119,080	117,377
Prior Period Adjustments	(543)	0	0	0	(543)	0
Ending Net Assets	\$ 82,069	\$ 86,106	\$ 33,498	\$ 32,974	\$ 115,568	\$ 119,080

GOVERNMENTAL ACTIVITIES

- In 2008 there was a decrease in net assets related to Governmental Activities of \$4,038 compared to an increase of \$780 the prior year. The most significant revenue component of the Governmental Activities is the general tax base.

BUSINESS-TYPE ACTIVITIES

In 2008 there was an increase in net assets related to Business-Type Activities of \$524.

The City's Water Fund, Sewer Fund and Storm and Surface Water Fund all showed a modest balance of revenues over expenses. The Building and Development Services Fund showed a net loss of \$1,639. The Building and Development Services activity recovered only 43% of its costs with its own revenues. This imbalance is expected to be mitigated in future years with recommended rate increases.

ANALYSIS OF BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

The **General Fund** balance decreased \$954 due to increased subsidies to the Building and Development Services Fund and to the Bond Debt Service Fund. Both of these funds had dramatic decreases in their normal funding sources (user fees for former and real estate excise taxes for the later). As a result, the General Fund ended the year with a deficit fund balance of (\$200).

The **Street Fund** accounted for \$3,639 in street and road maintenance costs compared to \$3,036 in 2007. This represents a 19.50% increase from the prior year. A major portion of this increase results from a 1st time payment to the Storm and Surface Water Fund for the Street Fund's share of the Island's streets and roads storm drain user fees. A portion of the increase was also caused by unanticipated road repair expenditures from the December 2007 storms. The Street Fund began 2008 with a fund deficit of (\$142). That deficit increased by \$42 to (\$184).

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget passed by the City Council anticipated an increase in the budgetary fund balance during the year of \$2,227. The actual was a decrease of \$954. Significant economic challenges have faced the City and continue to challenge operations and capital well into 2009. To learn more about the City's budget process and economic challenges, see Note 1.D. and Note 16 in the Notes to the Financial Statements, Economic and Other Factors below and the Required Supplementary Information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City has invested \$144,457 in **CAPITAL ASSETS** (net of depreciation), an increase of \$4,298. Approximately 73% of this investment is related to **GOVERNMENTAL ACTIVITIES** and includes **INFRASTRUCTURE, BUILDINGS, EQUIPMENT** and **LAND**. Capital Assets held by the City at the end of the current and previous years are summarized as follows:

Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 71,001	\$ 70,911	\$ 1,779	\$ 1,779	\$ 72,780	\$ 72,690
Buildings & Improvements.	16,275	15,595	40	10	16,315	15,605
Improvements Other than Bldgs	6,373	1,733	0	0	6,373	1,733
Development Rights	880	880	0	0	880	880
Vehicles & Equipment	7,411	7,071	2,252	2,222	9,663	9,293
Infrastructure	21,819	21,724	38,625	37,011	60,444	58,735
Construction in Progress	1,294	7,194	8,988	3,004	10,282	10,198
Less: Depreciation	(19,272)	(16,815)	(13,008)	(12,160)	(32,280)	(28,975)
Totals	\$105,781	\$108,293	\$38,676	\$31,866	\$144,457	\$140,159

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

LONG-TERM OBLIGATIONS

At the end of the current year the City had long-term debt related to governmental activities of \$26,749. This was an increase from the previous year of \$211 (normal retirements of \$1.6 million offset by a new issuance of \$1.8 million). Of the debt outstanding at the end of 2008, 100% was backed by the full faith and credit of the City. The City makes a general pledge on its tax levy for all bonded debt service and, for utility bonds, an additional pledge of all Proprietary Fund revenue, after operating and maintenance expenses. The total amount of debt related to Business-Type Activities was \$13,259. This was an increase from the previous year of \$4,569 (normal retirements of \$.7 million offset by a new issuance of \$5.2 million).

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

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds	\$ 25,110	\$ 24,665	\$ 1,350	\$ 1,630	\$ 26,460	\$ 26,295
Intergovernmental Loans	303	369	11,526	6,706	11,829	7,075
Land Purchase Contracts	775	921	0		775	921
Capital Leases	61	149	0		61	149
Compensated Absences	500	434	383	354	883	788
Totals	\$ 26,749	\$ 26,538	\$ 13,259	\$ 8,690	\$ 40,008	\$ 35,228

ECONOMIC AND OTHER FACTORS

The 2008 budget was passed in December 2007. The original budget included \$3,881 in interfund transfers. The fourth quarter of 2007 was beginning to show signs of a potential economic slowdown and by April of 2008 the recession was in full force for the City and the region. Material operating and capital expenditure reductions, \$1,618 and \$3,563 respectively were required to meet new projected revenues in governmental and enterprise funds.

General Fund Revenues for 2008 were \$783 (7%) under budget. Street Fund Revenues were \$461 (21%) under budget. Real Estate Excise Tax Fund Revenues were \$1,434 (46%) under budget. Revenues in the City's Waterworks Utility were 5.6% under budget due entirely to connection and system participation fees which lagged due to new construction slowdowns. Continuing increases in the future rates for the Utilities, specifically Sewer for major capital projects and SSWM for regulatory issues will be necessary to sustain those funds. Building and Development revenues were \$885 (42%) under budget requiring substantial operating subsidies from the General Fund. It is expected that there will be revenue challenges through the years 2009 and into 2010.

The downturn continued through January and February of 2009 requiring the City to reduce 2009 projected governmental revenues by over \$2,800 and to begin substantial operating cost reductions. This included the layoff of 14 full time positions, a 2009 work furlough of 10 days for non sworn positions, a work week reduction for 9 staff members, holding open numerous vacant positions, reductions and deferrals of capital projects, reductions in professional service contracts and potential sale of surplus property. The economic downturn also necessitated a short term interfund loan of \$600 from the Water Fund to the General Fund, in anticipation of April and May 2009 tax receipts. By the end of April 2009 the City's economic situation had stabilized but reductions remained in place and continued monitoring of all City revenues, operational expenditures and capital expenditures will be necessary through year end and into 2010.

CITY OF BAINBRIDGE ISLAND
Statement of Net Assets
As of December 31, 2008

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	1,630,259	4,888,067	6,518,327
Receivables - Net	1,712,341	561,939	2,274,279
Due from other Funds	392,726	106,102	498,828
Due from other Governments	166,837	151,478	318,316
Inventories	66,068	66,834	132,902
Prepays	183,320	-	183,320
Non-current Assets:			
Deferred Charges	376,991	14,986	391,978
Unmatured Assessments	36,492	4,258,746	4,295,238
Capital Assets - Net of Accumulated Depreciation	30,311,047	27,667,261	57,978,308
Land	71,042,052	1,779,829	72,821,881
Construction in Progress	3,548,168	9,228,070	12,776,237
Other Capital Assets	880,000	-	880,000
Total Assets	110,346,302	48,723,312	159,069,614
LIABILITIES			
Current Liabilities:			
Accounts Payable	869,431	1,117,449	1,986,881
Accrued Expenses	672,794	250,688	923,482
Due to Other Funds	46,910	451,918	498,828
Deferred Revenue	121,789	167,798	289,586
Other Current Liabilities	75,757	-	75,757
Long-Term Liabilities			
Compensated Absences	500,583	382,776	883,359
Due within One Year	1,781,117	861,992	2,643,109
Due in more than One Year	24,209,728	11,992,151	36,201,879
Total Liabilities	28,278,109	15,224,772	43,502,881
NET ASSETS			
Invested in Capital Assets - Net of Related Debt	79,790,421	25,821,017	105,611,438
Restricted for:			
Public Work Arts	129,351	-	129,351
Civic Improvement	188,078	-	188,078
Affordable Housing	322,916	-	322,916
Debt Service-GO Bond	47,935	-	47,935
Construction-Pritchard Park/WWTP	100,000	221,302	321,302
Construction-Bond Proceeds	547,198	-	547,198
Unrestricted	942,294	7,456,222	8,398,515
Total Net Assets	82,068,193	33,498,540	115,566,733

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

CITY OF BAINBRIDGE ISLAND
Statement of Activities
For the Year Ended December 31, 2008

	Program Revenues			Net Expense/Revenue and Changes in Net Assets		
	Expenses	Charges for Services		Primary Government		Total
		Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary Government:						
Governmental Activities:						
General Government	4,671,150	1,435,081	10,122	(2,775,565)		(2,775,565)
Judicial	658,206	198,892	-	(459,315)		(459,315)
Public Safety	4,598,494	109,814	45,722	(4,442,958)		(4,442,958)
Physical Environment	1,112,025	2,057	-	(1,042,982)		(1,042,982)
Transportation	3,581,208	51,727	459,397	(2,860,548)		(2,860,548)
Health and Human Services	452,200	-	-	(452,200)		(452,200)
Economic Environment	2,461,098	74,935	-	(2,386,163)		(2,386,163)
Culture and Recreation	1,029,996	-	-	(996,227)		(996,227)
Interest on Long Term Debt	1,175,214	-	-	(1,175,214)		(1,175,214)
Total Governmental Activities	19,739,592	1,872,506	515,241	(16,591,171)		(16,591,171)
Business-Type Activities:						
Water	2,092,351	2,170,869	-	168,378		168,378
Sewer	2,243,432	2,412,274	-	394,488		394,488
Storm Drain	1,838,486	2,276,141	192,801	630,457		630,457
Building and Development Services	2,865,175	1,218,751	-	(1,646,424)		(1,646,424)
Total Business-Type Activities	9,039,444	8,078,035	192,801	(453,102)		(453,102)
Total Primary Government	28,779,037	9,950,541	708,042	(16,591,171)	(453,102)	(17,044,273)
General Revenues:						
Property Taxes Levied for General Purpose				6,203,597	-	6,203,597
Property Taxes Levied for Other Purposes				548,908	-	548,908
Sales and Use Taxes				3,458,091	-	3,458,091
Business and Occupation Taxes				4,049,549	-	4,049,549
Excise Taxes				1,072,200	-	1,072,200
Penalties and Interest				5,411	-	5,411
Unrestricted Investment Earnings				81,258	102,531	183,788
Grants and Contributions not Restricted to Specific Program				319,896	-	319,896
Miscellaneous				461,062	41,015	502,077
Special Item				(2,029,517)	(240,066)	(2,269,584)
Transfers-In				163,221	1,236,929	1,400,151
Transfers-Out				(1,236,929)	(163,221)	(1,400,151)
Total General Revenues, Extraordinary, Special Items, and Transfers				13,096,747	977,188	14,073,935
Change in Net Assets				(3,494,424)	524,086	(2,970,338)
Prior Period Adjustments				(543,156)	-	(543,156)
Net Assets - Beginning				86,105,773	32,974,454	119,080,227
Net Assets - Ending				82,068,193	33,498,540	115,566,733

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

CITY OF BAINBRIDGE ISLAND
Statement of Revenues, Expenditures, and changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2008

	General	Streets	G.O. Bonds	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	6,140,693	-	548,908	-	6,689,601
Other taxes	6,881,675	490,898	-	1,236,258	8,608,831
Fees and fines	196,437	-	-	-	196,437
Licenses and permits	440,159	51,727	-	-	491,886
Intergovernmental	823,240	790,905	-	99,286	1,713,432
Charges for Services	1,113,379	-	-	75,256	1,188,635
Interest	62,891	-	-	14,562	77,453
Other revenues	59,323	386,165	-	9,887	455,375
Total Operating Revenues	15,717,799	1,719,696	548,908	1,435,249	19,421,652
EXPENDITURES					
General government	3,766,580	424,739	-	80,163	4,271,482
Judicial	649,875	-	-	-	649,875
Public safety	3,536,364	574,042	-	-	4,110,406
Physical environment	999,343	99,360	-	-	1,098,703
Transportation	117	2,240,096	-	-	2,240,213
Health and human services	452,200	-	-	-	452,200
Economic environment	2,035,831	91,819	-	233,032	2,360,682
Culture and recreation	852,678	-	-	-	852,678
Debt service:					
Principal	264,305	-	1,359,855	-	1,624,160
Interest	68,434	-	1,008,128	53,073	1,129,635
Other	-	-	-	-	-
Capital outlay	404,993	208,523	-	1,550,484	2,164,000
Total Expenditures	13,030,720	3,638,579	2,367,983	1,916,752	20,954,034
Excess (deficiency) of Revenue over Expenditures	2,687,079	(1,918,883)	(1,819,075)	(481,503)	(1,532,382)
OTHER FINANCING SOURCES/USES					
Proceeds of general long term debt	224,528	-	-	1,545,472	1,770,000
Transfers-In	-	1,875,957	1,865,458	184,664	3,926,080
Transfers-Out	(3,886,176)	-	-	(1,113,612)	(4,999,788)
Total other financing sources/uses	(3,661,648)	1,875,957	1,865,458	616,525	696,292
SPECIAL ITEM					
Proceeds from sale of fixed assets	20,863	410	-	203,169	224,443
Net change in fund balance	(953,706)	(42,515)	46,383	338,191	(611,647)
Fund balances--beginning	753,906	(141,704)	1,552	537,532	1,151,287
Prior Period Adjustments	-	-	-	-	-
Fund balances--ending	(199,800)	(184,219)	47,935	875,724	539,640

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

CITY OF BAINBRIDGE ISLAND
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances
of Major Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2008

Net change in fund balances -- total governmental funds (611,647)

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 the current period

Expenditures for capital assets	2,164,000	
Less: current year depreciation	(2,406,714)	(242,715)

Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (3,836,117)

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

Bond proceeds	(1,770,000)	
Redemption of Long-Term Debt	1,624,160	(145,840)

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. 1,341,894

Change in Net Assets of Governmental Activities (3,494,424)

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

CITY OF BAINBRIDGE ISLAND
Statement of Net Assets
Proprietary Funds
As of December 31, 2008

Business-Type Activities - Enterprise Funds

	Water	Sewer	Storm Drain	Building and Development Service	Total
ASSETS					
Current Assets:					
Cash and Cash Equivalents	3,707,848	1,191,015	(10,796)	-	4,888,067
Receivables - Net	63,442	350,916	147,080	500	561,939
Due from other Funds	59,192	-	46,910	-	106,102
Due from other Governments	-	-	151,478	-	151,478
Inventories	56,827	3,127	6,879	-	66,834
Noncurrent Assets:					
Deferred Charges	1,728	12,679	579	-	14,986
Unmatured Assessments	-	4,258,746	-	-	4,258,746
Capital Assets - Net of Accumulated Depreciation	11,526,603	7,523,918	8,611,421	5,319	27,667,261
Land	637,974	817,300	324,555	-	1,779,829
Construction in Progress	229,246	8,929,019	69,805	-	9,228,070
Other Capital Assets	-	-	-	-	-
Total Assets	16,282,861	23,086,721	9,347,912	5,819	48,723,312
LIABILITIES					
Current Liabilities:					
Accounts Payable	141,252	892,863	31,994	51,339	1,117,449
Accrued Expenses	32,890	92,341	43,443	82,014	250,688
Due to Other Funds	52,318	95,414	304,187	-	451,918
Deferred Revenue	-	-	-	167,798	167,798
Other Current Liabilities	-	-	-	-	-
Long-Term Liabilities					
Compensated Absences	157,842	83,771	53,430	87,732	382,776
Due within One Year	117,073	655,126	89,793	-	861,992
Due in more than One Year	(9,219)	11,202,756	798,615	-	11,992,151
Total Liabilities	492,157	13,022,271	1,321,461	388,883	15,224,772
NET ASSETS					
Invested in Capital Assets - Net of Related Debt	12,285,969	5,412,355	8,117,374	5,319	25,821,017
Restricted for:					
Construction-W WTP	-	221,302	-	-	221,302
Unrestricted	3,504,735	4,430,793	(90,923)	(388,383)	7,456,222
Total Net Assets	15,790,704	10,064,449	8,026,451	(383,064)	33,498,540
	15,790,704	10,064,449	8,026,451	(383,064)	33,498,540

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

CITY OF BAINBRIDGE ISLAND
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Year Ended December 31, 2008

	Water	Sewer	Storm Drain	Building & Development Service	Totals
REVENUES					
Operating Revenues:					
Charges for Services	2,170,869	2,412,274	2,276,141	1,218,751	8,078,035
Miscellaneous	-	-	192,801	-	192,801
Total Operating Revenues	2,170,869	2,412,274	2,468,942	1,218,751	8,270,837
EXPENSES:					
Operating Expenses:					
Personal Services	708,870	932,267	1,005,531	1,839,431	4,486,099
Contractual Services	496,841	145,795	193,728	855,129	1,691,493
Utilities	96,618	120,885	150,298	11,538	379,338
Repairs and Maintenance	45,274	59,375	57,217	-	161,865
Other Supplies and Expenses	407,304	466,190	216,507	15,210	1,105,211
Insurance Claims and Expenses	16,895	24,138	9,943	141,571	192,547
Depreciation	298,875	353,499	193,586	2,297	848,257
Total Operating Expenses	2,070,676	2,102,148	1,826,810	2,865,175	8,864,810
Operating Income (Loss)	100,193	310,126	642,132	(1,646,424)	(593,973)
OTHER SOURCES/USES					
Non-Operating Revenues and Expenses:					
Interest and Investment Revenue	69,254	33,277	-	-	102,531
Miscellaneous Revenue	12,185	50,793	(29,584)	7,622	41,015
Interest Expense	(21,675)	(141,284)	(11,675)	-	(174,635)
Miscellaneous Expense	-	-	-	-	-
Total Non-Operating Revenue & Expenses	59,763	(57,214)	(41,259)	7,622	(31,089)
Net income/loss before contributions and transfers	159,956	252,912	600,873	(1,638,802)	(625,062)
Special Item	(44,885)	(107,938)	(87,243)	-	(240,066)
Capital Contributions	89,860	225,646	-	-	315,506
Transfers-In	-	-	-	1,236,929	1,236,929
Transfers-Out	-	-	(163,221)	-	(163,221)
Change in net assets	204,931	370,620	350,408	(401,873)	524,086
Net Assets - Beginning	15,585,773	9,693,829	7,676,043	18,809	32,974,454
Prior Period Adjustments	-	-	-	-	-
Total Net Assets - Ending	15,790,704	10,064,449	8,026,451	(383,064)	33,498,540

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

CITY OF BAINBRIDGE ISLAND
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2008

	Business-Type Activities					Total
	Water	Sewer	Storm	Drain	Building & Development Service	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from Customers	2,110,647	2,664,650		2,014,475	1,219,129	8,008,902
Payments to Suppliers	(1,065,579)	(75,679)		(746,931)	(1,087,324)	(2,975,513)
Payments to Employees	(711,800)	(897,470)		(955,504)	(1,839,144)	(4,443,919)
Internal Activity - Payments to Other Funds	52,318	95,414		304,187	-	451,918
Other Receipts/Payments	9,190	210		189,515	-	198,916
Net Cash Provided (Used) by Operating Activities	394,776	1,787,125		765,742	(1,707,339)	1,240,304
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Operating Subsidies and Transfers to Other Funds	-	-		(163,221)	1,236,929	1,073,708
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Capital Contributions	89,860	225,646		-	-	315,506
Purchases of Capital Assets	(431,945)	(7,067,743)		(158,112)	-	(7,657,800)
Principal Paid on Capital Debt	(101,280)	4,746,334		(84,535)	-	4,560,518
Interest paid on Capital Debt	(21,675)	(141,284)		(11,675)	-	(174,635)
Other Receipts and/or Payments	(25,920)	(47,221)		(111,269)	8,019	(176,391)
Net cash Provided (Used) by Capital and Related Financing Activities	(490,961)	(2,284,268)		(528,813)	1,244,948	(2,059,094)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest and Dividends	69,254	33,277		-	-	102,531
Net Cash Provided by Investing Activities	69,254	33,277		-	-	102,531
Net Increase/Decrease in Cash and Cash Equivalents	(26,931)	(463,867)		236,929	(462,391)	(716,260)
Balances - Beginning of the Year	3,734,779	1,654,882		(247,725)	462,391	5,604,327
Balances - End of the Year	3,707,848	1,191,015		(10,796)	0	4,888,067
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities						
Operating Income/Loss	100,193	310,126		642,132	(1,646,424)	(593,973)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:						
Depreciation	298,875	353,499		193,586	2,297	848,257
Change in Assets and Liabilities:						
Receivables - Net	(60,222)	252,376		(261,666)	378	(69,134)
Inventories	9,190	210		(3,286)	-	6,115
Accounts Payable	(2,648)	740,703		(119,238)	(63,877)	554,941
Other Current Liabilities	52,318	95,414		304,187	-	451,918
Accrued Expenses	(2,931)	34,797		10,027	287	42,179
Net Cash Provided by Operating Activities	394,776	1,787,125		765,742	(1,707,339)	1,240,304

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

CITY OF BAINBRIDGE ISLAND
Statement of Net Assets
Fiduciary Funds
As of December 31, 2008

	Agency Funds
ASSETS	
Cash and Cash Equivalents	102,369
Receivables:	
Receivables - Net	13,345
Due from Other Funds	-
Total Receivables	13,345
Total Assets	115,714
LIABILITIES	
Accounts Payable	19,949
Deferred Revenue	-
Other Current Liabilities	95,765
Refunds Payable and Others	-
Total Liabilities	115,714

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

CITY OF BAINBRIDGE ISLAND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Bainbridge Island have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. All values reported in the notes are in thousands (, 000) unless otherwise noted.

A. Reporting Entity

The City of Bainbridge Island was incorporated on September 18, 1947, under the name City of Winslow and operates under the laws of the State of Washington applicable to a Noncharter Code City with a Mayor-City Council form of government. A part-time mayor and seven part-time City Council members lead Bainbridge Island. All are elected to four-year terms except for transition terms. The City is a general-purpose government and provides for the following major types of services: police, water supply/treatment/distribution, sewage collection/treatment, storm water (drainage) collection, street maintenance, planning and zoning, parks and boat docks, judicial and general administration. Other local governments provide public education, fire suppression, library and most park services. In accordance with generally accepted accounting principles the financial statements represent those activities of the City—the primary government—the City has no component units and is not involved in nor does it have an equity interest in any joint ventures.

B. Government-Wide and Fund Financial Statements

The Government-Wide Financial Statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the City. Generally, the effect of interfund activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Government-Wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the Proprietary Fund and Fiduciary Fund Financial Statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and a conservative interpretation of the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available¹ and expenditures generally are recorded when a liability is incurred.²

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

General Fund

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

Streets Fund

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

General Obligation Bond Fund

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

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

Water Fund

The Water Fund accounts for all activities related to providing water services to City Water customers, primarily located in the historic Winslow area. The Water Fund includes sub-funds for operations, debt-service and capital construction. For convenience, the City structures its water, sewer, and storm & surface water management utilities as separate funds. Legally, these three funds constitute a single, unified Waterworks Utility.

Sewer Fund

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

Storm & Surface Water Management Fund

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

Building & Development Services Fund

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

The City maintains one **Fiduciary Fund**:

This fund is an agency fund, is custodial in nature (assets always equal liabilities) and does not involve the measurement of results of operations. Within this fund are a number of sub-funds representing monies on which the City has either no claim or has a junior claim to some other third party. Included are construction retainage accounts and performance bonds, School Impact Fees held for the Bainbridge Island School District and money held in transit under three party contracts. The City does not have any endowments or permanent funds.

¹ The City has interpreted the term ‘available’ to mean that revenues have actually been received and can be spent.

² Debt Service expenditures and expenditures related to compensated absences and claims and judgments are recorded when the payment is due rather than when incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in both the Government-Wide and Proprietary Fund Financial Statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

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

Proprietary Funds distinguish operating revenues and expenses from non-operating revenue and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. The principal operating revenues of the City's Proprietary Funds are user fees for monthly services, connection charges paid by new users, and permit fees paid for processing regulatory permits and approvals. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation of Capital Assets. All revenues and expenses not meeting this definition are reported as Non-Operating Revenues and Expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

D. Budgetary Information

1. Scope of Budget

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

2. Procedures for Adopting the Original Budget

The City's budget procedures as mandated by RCW³ 35.33 are as follows:

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

³ "RCW" refers to the Revised Code of Washington as published by the Statute Law Committee.

- d. The Mayor prepares the preliminary budget and message, files it with the City Clerk, and delivers it to the City Council no later than 60 days before the end of the fiscal year.
- e. The City Council holds public hearings on taxes and the proposed budget, proposes and makes adjustments and adopts a balanced final budget prior to December 31.

3. Amending the Budget

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

4. Deficit Fund Equity

On December 31, 2008, the SSWM Fund had a deficit of \$91 in unrestricted assets, which is expected to be eliminated in future years by rate increases and financing activities. The Building and Development Services Fund had a deficit of \$388 in unrestricted assets, the General Fund had a deficit of \$211, and the Streets Fund had a deficit of \$173. These fund deficits are expected to be eliminated in future years through additional spending cuts and anticipated return of economic activity.

E. Assets, Liabilities and Equities

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

Cash and Cash Equivalents

1. It is the City's policy to invest all temporary cash surpluses. The City considers cash and cash equivalents to include cash on hand, demand deposits, and all short-term investments with original maturities of three months or less from date of acquisition. At December 31, 2008, the City was holding \$6,621 (including \$102 in Fiduciary Funds) in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents. Interest on these investments is distributed to various funds proportional to their cash balances. At December 31, 2008, the City was not holding any customer deposits.

2. **Receivables**

Taxes receivable are not recognized on the fund financial statements; although they are often measurable, the City cannot tell when they might be available. Levy rates for property taxes are adopted in November of each year but are not recognized as a receivable until the following year, when the amounts are legally levied and due and the City has a legal claim to the taxpayers' resources. Taxes receivable are recognized together with the related revenue adjustment on the Government-Wide Financial Statements. As of December 31, 2008 and 2007, the City had taxes receivable of \$1,400 and \$1,361 respectively.

Special Assessments are recorded in special assessment registers when levied, in the LID Debt Service Fund for regular LIDs and in the Enterprise Fund for Utility LIDs. As of December 31, 2008 and 2007, the City had \$2 and \$2 respectively in delinquent Special Assessments receivable compared to total cash of \$35 and \$25 respectively in its LID Debt Service Fund.

The City recognizes as receivables only those fines or forfeits that are on a court-ordered time payment plan or which have been sent to collection. This is partly because the other amounts that have been levied are still subject to adjudication and possible commutation and partly because the State's computer system used by the City converts the amounts owed to the amounts set by the State. The amount recognized for 2008 is \$1,277 (\$1,022 considered uncollectible) compared to \$1,219 (\$966 considered uncollectible) for 2007.⁴

⁴ See also Note No. 15 Prior Period Adjustments.

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 either “Interfund Loans Receivable/Payable” or “Advances To/From Other Funds.” As of both fiscal years ended 2008 and 2007, the City had no interfund loans or advances outstanding. The City also has reimbursement Grants and other receivables from the State, Federal and local governments. Those amounts totaled \$319 and \$908 for 2008 and 2007 respectively.

4. Inventories

Inventories consist of expendable supplies held for consumption. Costs are recorded as expenditures at the time of purchase and inventory levels are tracked but not booked since they are considered immaterial. Inventories are valued by the LIFO (last in/first out) method, which approximates their market value.

5. Restricted Assets and Liabilities

These accounts contain resources for consumer deposits and construction in Enterprise Funds. The current portion of related liabilities is shown as Payables from Restricted Assets.

The Restricted Assets of the combined Waterworks Utility Fund are composed of the following:

	<u>2008</u>	<u>2007</u>
Cash and Investments – Construction	\$221	\$ 0

6. Capital Assets

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

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

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

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

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

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

7. Compensated Absences

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

Vacation pay may be accumulated up to 320 hours, unless the City Council grants a variance, and is payable upon resignation, retirement or death. Compensating time off may be taken at any time or will be paid out at the employee’s request. Standby time represents compensating time off for employees who are required to be available on standby during non-working hours. Floating holidays primarily represent holidays worked by law enforcement officers and may subsequently be taken on a make-up basis.

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

Total liability for compensated absences as of December 31, 2008 and 2007 is as follows:

	2008	2007
Vacation and Holidays	\$683	\$599
Compensating Time	90	103
Standby Time	17	18
Floating Holidays	93	68
Total	\$883	\$788

8. Other Current Liabilities

These accounts consist of accrued wages and accrued employee benefits.

9. Long-term Debt

See Note No. 9 – Debt and Leases.

10. Deferred Revenues

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

11. Fund Reserves and Designations

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

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

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

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

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

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

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 4 – DEPOSITS AND INVESTMENTS

A. Deposits

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

B. Investments

Washington State Law limits the types of investments into which the City may place funds. Allowable investments include U.S. Government obligations, State and local government obligations, banker's acceptances and deposits in Washington State financial institutions. All funds were invested in either the Washington State Treasurer's Investment Pool or the Kitsap County Treasurer's Investment Pool and are marked to market monthly by those agencies. Both pools are non-rated. On the City's balance sheet, these pool investments are considered cash equivalents. As a matter of policy, the City does not use reverse repurchase agreements (because of the difficulty in perfecting collateral) and also does not invest in derivatives (because of the difficulty in assessing risk). The City has no investments subject to risk categorization. At December 31, 2008, the City held the following investments not subject to categorization:

Investment in State Treasurer's Investment Pool *	\$1,449
Investment in Kitsap County Treasurer's Investment Pool *	4,350
Total Investments *	\$5,799

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

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

NOTE 5 – PROPERTY TAXES

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

Property Tax Calendar

January 1

Taxes are levied and become an enforceable lien against properties

February 14

Tax bills are mailed

April 30

First of two equal installment payments is due

May 31

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

October 31
Second installment is due

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

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

1. RCW 84.55.010 limits the growth of regular property taxes to a percentage per year after adjustments for new construction. Historically, that limit had been 6 percent per year. In November 2001, State Initiative Bill No. 747 was approved by the voters and changed the limit from a flat 6 percent to the lower of 1 percent or the percentage change in the implicit price deflator for personal consumption expenditures. This change affects 2002 and future years. This limit is mitigated for the City by RCW 84.55.092 which allows a local taxing district (including the City), with a vote of the people, to tax up to the amount it would have been allowed had it raised taxes to the maximum allowed each year under RCW 84.55.010.
2. The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.
3. The City of Bainbridge Island is a secondary taxing district, behind the Kitsap Regional Library District (KRLD) and the Bainbridge Island Fire Department/Kitsap County Fire Protection District No. 2 (BIFD). The amount the City can levy is reduced from the \$3.60 maximum by the regular levy amounts actually levied by these two agencies. The maximum amount these agencies can levy is \$0.50 and \$1.50, respectively. Combined, they have the potential to reduce the City's regular levy to \$1.60 per \$1,000 of assessed value. The following table details the levy rates for years 2008, 2007 and 2006:

Year	KRLD/BIFD Levy Rate	COBI Maximum Allowable Levy Rate	COBI Actual Levy Rate
2008	\$1.0046	\$2.5954	\$0.9397
2007	\$1.1213	\$2.4787	\$1.0557
2006	\$1.2935	\$2.3065	\$1.2093

The City's regular levy for 2008 at \$.9397 per \$1,000 assessed valuation on an assessed valuation of \$6.612 billion produced a total levy of \$6.212 million.

Special levies approved by the voters are in addition to the regular levy stated above and are not subject to limitations. From 1990 to 2002, the City had no special levies outstanding. In December 2003, the City issued \$4.5 million in voted Open Space General Obligation bonds. In July 2004, the City issued an additional \$3.5 million in voted Open Space General Obligation bonds. The special levy rate for those issues combined is \$0.0851 in 2008, \$0.0987 in 2007 and \$0.1186 in 2006.

NOTE 6 – CAPITAL ASSETS

A. Capital Assets - Activity for the year ending December 31, 2008, was as follows:

Governmental Activities	Beg. Balance Dec 31, 2007	Additions	Deletions	Ending Balance Dec 31, 2008
Capital Assets not depreciated:				
Land	\$ 70,911	\$ 90	\$ 0	\$ 71,001
Construction in Progress	7,194	1,755	(7,655)	1,294
Development Rights	880			880
Total Capital Assets not Depreciated	78,985	1,845	(7,655)	73,175
Capital Assets depreciated				
Buildings	15,595	681		16,275
Improvements other than buildings	1,733	4,640		6,373
Machinery & Equipment	7,071	354	(14)	7,411
Infrastructure	21,724	94		21,819
Total Capital Assets depreciated	46,123	5,769	(14)	51,878
Less accumulated depreciation for:				
Buildings	(3,331)	(560)		(3,891)
Improvements other than buildings	(243)	(178)		(421)
Machinery & Equipment	(4,811)	(647)	14	(5,444)
Infrastructure	(8,430)	(1,086)		(9,516)
Total accumulated depreciation	(16,815)	(2,471)	14	(19,272)
Total Capital Assets being depreciated, net	29,308	3,298		32,606
Governmental Activities Capital Assets, net	\$ 108,293	\$ 5,143	\$ (7,655)	\$ 105,781

Business-Type Activities	Beg. Balance Dec 31, 2007	Additions	Deletions	Ending Balance Dec 31, 2008
Capital Assets, not depreciated:				
Land	\$ 1,779	\$ 0	\$ 0	\$ 1,779
Construction in Progress	3,004	7,814	(1,830)	8,988
Total Capital Assets not depreciated	4,783	7,814	(1,830)	10,767
Capital Assets, depreciated:				
Buildings	10	30		40
Machinery & Equipment	2,222	31		2,252
Infrastructure	37,011	1,613		38,625
Total Capital Assets depreciated	39,243	1,674		40,917
Less accumulated depreciation for:				
Buildings	(6)	(1)		(7)
Machinery & Equipment	(1,597)	(118)		(1,715)
Infrastructure	(10,557)	(730)		(11,287)
Total accumulated depreciation	(12,160)	(848)		(13,008)
Total Capital Assets Depreciated, net	27,083	826		27,909
Business-Type Activities Capital Assets, net	\$ 31,866	\$ 8,640	\$ (1,830)	\$ 38,676

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

Governmental Activities	2008	2007
General Government	\$ 381	\$ 393
Judicial	5	5
Public Safety	405	262
Physical Environment	8	7
Transportation	1,430	1,380
Economic Environment	92	9
Health & Human Services	0	0
Culture & Recreation	150	37
Total Depreciation – Governmental Activities	\$2,471	\$2,093

Business-Type Activities	2008	2007
Water Utility	\$299	\$ 290
Sewer Utility	353	348
Storm & Surface Water Mgmt Utility	194	194
Building & Development Services	2	9
Total Depreciation – Business-Type Activities	\$848	\$ 841

B. Construction Commitments

The City had one significant active construction project as of December 31, 2008, which was the Wastewater Treatment Plant Upgrade. The project had \$5,473 in an outstanding construction, equipment and design contracts. The City also has several shoreline projects in various stages of design. Because the projects are in the design stage only, with billings current on an hourly-charge basis for the work done, there are no commitments for them.

NOTE 7 – PENSION PLANS

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

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

Plan Description

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

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

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

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

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

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

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

There are 1,190 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2007:

Retirees and Beneficiaries Receiving Benefits	71,244
Terminated Plan Members Entitled to but not yet Receiving Benefits	26,583
Active Plan Members Vested	105,447
Active Plan Members Non-vested	52,575
Total	255,849

At year-end December 31, 2008, the City had 5 employees enrolled in Plan 1, 100 employees enrolled in Plan 2, and 18 employees enrolled in Plan 3.

Funding Policy

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

The required contribution rates expressed as a percentage of current-year covered payrolls, as of December 31, 2008, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	8.31%**	8.31%**	8.31%***
Employee	6.00%****	5.45%****	*****

- * The employer rates include the employer administrative expense fee currently set at 0.16%.
- ** The employer rate for state elected officials is 12.39% for Plan 1 and 8.31% for Plans 2 and 3.
- *** Plan 3 defined benefit portion only.
- **** The employee rate for state elected officials is 7.50% for Plan 1 and 5.45% for Plan 2.
- ***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the City and the 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
2008	\$27,983	\$470,986	\$91,057
2007	\$26,781	\$346,263	\$55,635
2006	\$13,092	\$164,153	\$24,776

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

Plan Description

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

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

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

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

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

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

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

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2007:

Retirees and Beneficiaries Receiving Benefits	9,085
Terminated Plan Members Entitled to but not yet Receiving Benefits	633
Active Plan Members Vested	12,904
Active Plan Members Non-vested	3,708
Total	26,330

On December 31, 2008, the City had 22 employees enrolled in Plan 2.

Funding Policy

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2008, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.46%
Employee	0.00%	8.83%
State	N/A	3.53%

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

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

	LEOFF Plan 1	LEOFF Plan 2
2008	\$0	\$93,873
2007	\$0	\$89,290
2006	\$0	\$66,580

NOTE 8 – RISK MANAGEMENT

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 129 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, stopgap, and employee benefits liability. Limits are \$4 million per occurrence in the 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 up to \$500,000 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, 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 that comply with all State guidelines. These revenues directly offset portions of the membership's annual assessment.

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

During the three years ending December 31, 2008, only one payment was made that was not fully covered by insurance. \$75 was paid in December 2007 for settlement of a land use case.

NOTE 9 – DEBT AND LEASES

A. Long-Term Debt

The City issues General Obligation Bonds to finance the purchase, acquisition and/or construction of general City facilities, parks and open space, streets and roads, water systems, sewer systems and storm drainage systems. Bonded indebtedness has also been entered into in prior years to advance refund two general obligation and revenue bonds. General Obligation Bonds have been issued for both governmental and business-type activities and are being repaid from the applicable resources. The City presently has no revenue bonds outstanding although Limited-Tax General Obligation Bonds still outstanding have been used to refinance revenue bonds. In such cases, the outstanding bonds are being repaid entirely from utility revenues but the bonds also carry the full faith and credit guarantee of the General Government. The City is also liable for notes that were entered into for the purchase of agricultural land and open space. These notes are considered obligations of the General Government and are being repaid with General Government revenue sources.

On September 22, 2008, the City issued \$1,770 of Limited Tax General Obligation Bonds for a portion of the costs of various capital projects of the City included in the City’s 2008 capital facilities plan and cost of issuance. The bonds are payable through 2028 in annual installments ranging from \$95 to \$137 and bear interest from 3.25% to 4.50% with yields from 2.00% to 4.5%. The bonds are payable from the General Tax Revenues of the City and were issued with a rating of A+ from Moody’s.

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

Type of Debt or Related Item	Governmental Activities	Business-Type Activities
General Obligation Bonds	\$ 25,110	\$ 1,350
Other General Obligation Long-Term Debt	1,078	11,526
Capital Leases	61	
Other Post Employment Benefits	63	
Compensated Absences	501	383
Unamortized Bond Discounts, Premiums and Issuance Costs	88	
Unamortized Loss on Refunding of Prior Long-Term Debt	(410)	(22)
Total General Long-Term Debt	\$ 26,491	\$ 13,237

General Obligation Bonds outstanding as of December 31, 2008, are as follows:

Purpose	Interest Rates	Governmental Activities	Business-Type Activities
Refinance Utility Improvement Bonds	4.55 – 5.15%		\$ 275
General City Facilities Land Acquisition	4.88 – 5.60%	\$ 230	
City Hall Construction, Roads, Open Space	3.80 – 4.70%	11,020	
Refinance Sewer Improvement Bonds	4.36 – 4.42%		1,075
Refinance	2.50 – 4.70%	6,970	
Open Space	2.50 – 4.70%	6,890	
Total General Obligation Bonds		\$ 25,110	\$ 1,350

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

Year Ending	Governmental	Activities	Business-Type	Activities
December 31	Principal	Interest	Principal	Interest
2009	\$ 1,500	\$ 1,043	\$ 295	\$ 61
2010	1,570	984	195	46
2011	1,630	925	200	38
2012	1,820	861	210	29
2013	1,890	790	215	20
2014-18	10,030	2,721	235	11
2019-23	4,970	997		
2024-28	1,700	187		
Total	\$25,110	\$8,507	\$1,350	\$ 205

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

Purpose	Interest Rates	Governmental	Business-Type
Purchase Land from Kitsap County	None	\$ 60	
Purchase 15 acres of agricultural land	7.60%	549	
Purchase 5 Acres for Open Space	7.50%	50	
Purchase Brownell Property	6.00%	175	
PWTF Loan for Street Improvements	1.00%	244	
PWTF Loan Decant Facility Design*	.5%		\$ 153
PWTF Loan South Island Sewer Lines*	.5%		4,480
PWTF Loan Wastewater Treatment Plant*	.5%		337
PWTF Loan Storm Drain Decant Facility*	.5%		700
PWTF Loan Sewage Treatment Plant Upgrade 1*	.5%		3,361
PWTF Loan Sewage Treatment Plant Upgrade 2*	.5%		2,495
Total Other General Obligation Debt*		\$ 1,078	\$ 11,526

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

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

Year Ending	Governmental	Activities	Business-Type	Activities
December 31	Principal	Interest	Principal	Interest
2009	\$220	\$55	\$688	\$54
2010	118	47	688	54
2011	52	45	688	51
2012	584	12	688	47
2013	35	1	688	44
2014-18	70	1	3,441	168
2019-23			3,441	82
2024-28			1,204	9
Total	\$1,078	\$161	\$11,526	\$509

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

As of December 31, 2008, the City has \$47 available in its Debt Service Funds to service the General Bonded Debt. As a matter of policy, the City does not formally designate a portion of its taxes to repay General Obligation Debt (other than its voted Unlimited Tax General Obligation bonds); instead, all unrestricted revenues are available for that purpose. At December 31, 2008, the City had no Special Assessment Debt in its Governmental Funds and \$4,760 in PWTF Loans designated as Special Assessment Debt in its Sewer Utility Fund.

B. Changes in Long-Term Liabilities

During the year ending December 31, 2008, the following changes occurred in long-term liabilities:

	Beginning			Ending	
	Balance			Balance	Due Within
	Dec 31, 2007	Additions	Reductions	Dec 31, 2008	One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 7,130	\$ 0	\$ 240	\$ 6,890	\$ 250
Limited Tax General Obligation Bonds	17,535	1,770	1,085	18,220	1,250
Total Bonds Payable	24,665	1,770	1,325	25,110	1,500
Land Purchase Contracts	921		146	775	155
Capital Leases	149		88	61	61
Loans from Other Gov'ts	369		66	303	65
Compensated Absences	434	66		500	
Governmental Activity long-term liabilities	\$26,538	\$ 1,836	\$ 1,625	\$ 26,749	\$ 1,781

Business-Type Activities:					
Limited Tax General Obligation Bonds	\$ 1,630	\$ 0	\$ 280	\$ 1,350	\$ 295
Compensated Absences	354	29		383	
Loans from Other Gov'ts	6,706	5,209	389	11,526	567
Business-Type Activity long-term liabilities	\$ 8,690	\$ 5,238	\$ 669	\$ 13,259	\$ 862

C. Leases

1. Operating Leases

Although the City has Operating Leases for office space and equipment, all of these leases are cancelable by the City; they can be terminated by the City with 30 to 90 days notice.

2. Capital Leases

Capital Lease Obligations currently outstanding are as follows:

Purpose	Interest Rates	Amount
Capital Leases – Police Cars	5.40%	\$ 38
Capital Leases – Police Cars	6.80%	17
Capital Leases – Police Cars	6.25%	6
Total Capital Lease Obligations		\$ 61

The assets acquired through Capital Leases are as follows:

Asset	Government Activities	Business-Type Activities
Telephone System	\$ 387	\$ 0
Vehicles	690	
Less Accumulated Depreciation	(1,077)	
Total	\$ 0	\$ 0

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2008, are as follows:

Year Ending	Governmental Activities	Business-Type Activities
December 31		
2009	\$ 61	\$ 0
Less: Interest	(2)	
Present Value of Minimum Lease Payments	\$ 59	\$ 0

D. Other Debt

The City had no short term debt activity and was only contingently liable for special assessments debt in 2008 (South Island Sewer LID No. 20).

NOTE 10 – CLAIMS, CONTINGENCIES, LITIGATION AND OTHER LIABILITIES

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

The only specific large claim or suit not covered by the City’s insurance is a suit by the Home Builders Association of Kitsap County alleging that increases in building permit fees are an improper tax. On April 13, 2006, this suit was adjudicated in favor of the City supporting the methods and levels of fees. The case was subsequently appealed and remanded back to the trial court. In addition, several smaller suits not covered by the City’s insurance have been filed against the City regarding land use actions. Most of these suits seek a revised land use decision plus attorneys’ costs. All other claims and suits are within the limits of the City’s insurance.

There is no requirement to pay out accumulated sick leave (see Note No. 1-E-7). However, employees can draw on that time in the future if sick or injured. As of December 31, 2008 and 2007, the value of total accumulated sick leave was \$1,254 and \$1,142 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, 2008 and 2007 was \$88 and \$69 respectively.

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

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

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

NOTE 11 – INTERFUND BALANCES AND TRANSACTIONS

The City had no other interfund transactions during 2008 with the exception of interfund subsidies and the economic rent and internal utility taxes discussed in Note 1.C (treated as quasi-external transactions). In addition, the City recorded interfund payables and receivable at year-end to reflect corrections between funds found after publishing the December 2008 monthly report but prior to the final preparation of the 2008 financial statements.

At year ended December 31, 2008, the City had the following interfund balances:

Due To:	Due From General Fund	Due From Constr. Fund	Due From Water Fund	Due From Sewer Fund	Due From SSWM Fund	Total
General Fund	\$ 0	\$ 0	\$ 24	\$ 31	\$ 24	\$ 79
Streets Fund					209	209
Affordable Housing	131					131
G. O. Bond Fund				48		48
Construction Fund			28	16	12	56
Water Fund					59	59
SSWM Fund		47				47
Total	\$ 131	\$ 47	\$ 52	\$ 95	\$ 304	\$ 629

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

Receiving Fund:	Transfers From General Fund	Transfers From R/E Excise Tax Fund	Transfers From Other Funds	Total	Notes / Reason for Transfer
Streets Fund	\$ 1,713	\$ 0	\$ 163	\$ 1,876	Operating Subsidy
Affordable Housing	185			185	Housing Subsidies
G. O. Debt Service	752	1,114		1,866	To fund Debt Svc Pmts
Bldg & Dev Svcs	1,237			1,237	Operating Subsidy
Total	\$ 3,887	\$ 1,114	\$ 163	\$ 5,164	

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

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

NOTE 12 – RECEIVABLE AND PAYABLE BALANCE

A. RECEIVABLES

As of December 31, 2008, receivables (net of amounts determined to be uncollectible) were as follows:

	Accounts	Taxes	Special Assessments	Other Governments	Other Funds	Other	Total
Governmental Activities:							
General Government	\$ 46	\$ 1,400	\$ 0	\$ 0	\$ 79	\$ 0	\$ 1,525
Transportation	2			124	209		335
Culture & Recreation				34			34
Judicial	255						255
Phys. Environment			0	9	104	9	122
Total Governmental Activities	\$ 303	\$ 1,400	\$ 0	\$ 167	\$ 392	\$ 9	\$ 2,271

Business-Type Activities:							
Water	\$ 47	\$ 0	\$ 17	\$ 0	\$ 59	\$ 0	\$ 123
Sewer	60		291				351
Storm & Surface Water	147			151	47		345
Bldg. & Dev. Svcs.				1			1
Total Business-Type Activities	\$ 254	\$ 0	\$ 308	\$ 152	\$ 106	\$ 0	\$ 820

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

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

B. Payables

As of December 31, 2008, payables were as follows:

	Vendors	Salaries & Benefits	Due To Other Governments	Due to Other Funds	Other	Total
Governmental Activities:						
General Government	\$ 600	\$ 389	\$ 18	\$ 0	\$ 151	\$ 1,158
Transportation	203	103		47		353
Econ. Environment	32					32
Culture & Recreation					100	100
Health/Human Svcs	22					22
Total Governmental Activities	\$ 857	\$ 492	\$ 18	\$ 47	\$ 251	\$ 1,665

Business-Type Activities:						
Water	\$ 141	\$ 32	\$ 0	\$ 52	\$ 1	\$ 226
Sewer	893	58		96	34	1,081
Storm & Surface Water	32	41		304	3	380
Bldg. & Dev. Svcs.	51	82				133
Total Business-Type Activities	\$ 1,117	\$ 213	\$ 0	\$ 452	\$ 38	\$ 1,820

NOTE 13 – SEGMENT INFORMATION

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

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

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

NOTE 14 – POSTRETIREMENT BENEFITS OTHER THAN RETIREMENT

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

Plan Description

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The City’s annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2008. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB. The net OPEB obligation of \$63 is included as a noncurrent liability on the Statement of Net Assets.

Fiscal Year Ending
12/31/2008

Determination of Annual Required Contribution:

Normal Cost at year end	\$ 0
Amortization of UAAL*	101
Interest for year	<u>0</u>
Annual Required Contribution	<u>\$ 101</u>

Determination of Net OPEB Obligation:

Annual Required Contribution	\$ 101
Interest on prior year Net OPEB Obligation	0
Adjustment to ARC	
Annual OPEB Cost	101
Contributions made	<u>(38)</u>
Increase in Net OPEB Obligation	\$ 63
Net OPEB Obligation-beginning of year	<u>\$ 0</u>
Net OPEB Obligation-end of year	<u>\$ 63</u>

*Unfunded Actuarial Accrued Liability (UAAL)

The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2008 is as follows:

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

Funded Status and Funding Progress

As of January 1, 2008, the most recent calculation date, the plan was 0% funded. The accrued liability for benefits was \$1,083 and the actuarial value of the assets was \$0 resulting in a UAAL of \$1,083. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Actuarial Methods and Assumptions

The City has used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.22 was assumed for all active members for determining the actuarial accrued liability. Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the September 30, 2006, actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the statewide LEOFF 1 medical study performed in 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 was Projected Unit Credit. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 15 – SPECIAL ITEMS

During 2008 the City had several transactions that qualified as special items as defined by the GASB. These items are as follows:

	Governmental Activities	Business Type Activities	Total
Winslow Tomorrow – partial project abandonment	\$ (1,823)	\$ (240)	\$ (2,063)
Wyatt Way – project abandonment	(431)	0	(431)
Sale of Capital Assets	224	0	224
Totals	\$ (2,030)	\$ (240)	\$ (2,270)

The Winslow Tomorrow project abandonment: On April 9, 2008, the City Council voted to reduce this project by approximately 40% and move forward with a mostly utility only project. This change effectively abandoned all non-utility planning and design costs that had been carried as construction in progress.

The Wyatt Way project abandonment: The City Council voted to endorse a Capital Improvement Plan that deferred this project to beyond 2016. After discussions with the Engineering Department we concluded that deferral this far out effectively abandoned planning and design stage costs that had been carried as construction in progress.

NOTE 16 – PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of \$479 in the governmental activities portion of the Statement of Activities was necessary to correct an overstatement of Alliance One collection agency revenue when compared to the State of Washington's court financial system revenues and receivables. The City recently received guidance from the State Administrative Office of the Courts relating to their methodology of estimating municipal Court receivables from fines and forfeitures. A prior period adjustment of \$64 in the governmental activities portion of the Statement of Activities was also necessary for street and road infrastructure depreciation expense not recorded in 2007.

NOTE 17 - OTHER DISCLOSURES

Subsequent Events

On March 25, 2009, the City issued its 2009 \$5,220 Limited Tax General Obligation Refunding Bonds to pay the cost to carry out a current refunding of a portion of the City's Limited Tax General obligation Improvement and Refunding Bonds, 1998 and to pay the costs of issuance and sale of such bonds. The bonds are payable through 2018 in annual installments ranging from \$549 to \$667 and bear interest from 3.00% to 5.00% with yields from 1.12% to 3.76% and an all inclusive interest cost (AIC) of 3.517%. The bonds are payable from the General Tax Revenues of the City and will effect an overall savings to the City of \$254 over the remaining life of the bonds.

The fourth quarter of 2008 saw dramatic downturns in governmental revenues challenging the City in meeting its reserve goals at year-end. The downturn continued through January and February of 2009 requiring the City to revise 2009 projected governmental revenues by over \$2,800 and to begin substantial operating cost reductions which have included the layoff of 14 full time positions, a work furlough of 10 days through the year for non sworn positions, work week reductions for 9 staff, holding open numerous vacant positions, reductions in professional services contracts and consideration of the sale of surplus properties owned by the City. The results of the fourth quarter 2008 and the January and February revenue shortfalls necessitated an interfund loan of \$600 from the Water Fund of the Consolidated Waterworks Utility to the General Fund in anticipation of tax revenues of April and May of 2009. By the end of April, 2009 the loan had been repaid and the City economics had stabilized but reductions remain in place and continued monitoring of all City revenues, operational expenditures and capital expenditures will be necessary through year end.

On April 22, 2009, the City received notice of a lawsuit from the Bainbridge Ratepayers Alliance seeking declaratory and injunctive relief holding the financing proposed to complete the Winslow Sewer Treatment Plant upgrade project in excess of the amount necessary to complete the project as authorized and thus an illegal tax and enjoining the City from

implementing the financing proposal and using funds secured thereby for any project other than completion of the Waste Water Treatment Plant project. A planned short term financing to finish the project that was intended to be replaced by permanent long-term financing has been delayed. On May 15, 2009, the City authorized an interfund loan from the Water Fund to the Sewer Fund of the Consolidated Waterworks Utility of up to \$3 million to continue the upgrade project of the Sewer Treatment Plant and to allow the City time to address legal challenges related to the plant financing.

- On July 17, 2009, the City filed its motion for summary judgment on the Bond Validity Claim and to dismiss the remaining claims and allegations.
- On August 27, 2009, the City filed its motion to sever the Bond Validity Claim from the other claims.
- On September 4, 2009, the City's motions were granted and orders were entered by the Kitsap County Superior Court. The Orders dismissed without prejudice the Other Claims, and the Other Claims may be re-filed in the future by Plaintiff or others. The Orders dismissed with prejudice the Bond Validity Claim.
- On September 14, 2009 Plaintiff filed a motion for reconsideration of the Orders with the Kitsap County Superior Court.
- On September 17, 2009, the Kitsap County Superior Court denied reconsideration of the Orders.
- On September 17, 2009, Plaintiff filed with the Washington Court of Appeals Plaintiff's notice of appeal of the dismissal of the Bond Validity Claim only.
- On October 7, 2009, the Court of Appeals advised the parties regarding its schedule for consideration of the appeal.

At this point the City is unable to determine the outcome or fiscal impact of the case.

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

On August 7, 2009 a settlement agreement was approved in Kitsap County Court regarding a lawsuit filed by the Home Builders Association of Kitsap County, Hillandale Homes LLC., Jefferson Properties, Inc. and Andy Mueller Construction, Co. and other related parties to the suit in the amount of \$495 with a payment made as of August 14, 2009. This settlement was reached for monetary purposes only and does not alter the methods of calculation or levels of past fees or charges.

CITY OF BAINBRIDGE ISLAND

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY CHANGES**

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

Department	Appropriated Budget	Amended Budget	Actuals	Difference From Amended
Legislative	\$ 930	\$ 303	\$ 108	\$ 195
Executive	3,010	2,515	2,675	(160)
Judicial	520	570	551	19
Finance	5,306	1,568	1,433	135
Information Technology	865	856	814	42
Police	4,469	3,696	3,477	219
Planning	6,242	7,845	3,981	3,865
Public Works	28,330	22,495	16,746	5,748
General Government	8,480	8,045	7,790	255
Total	\$58,155	\$47,894	\$37,575	\$10,319

The 2008 Budget was passed in December 2007. The original appropriated budget included \$3,881 of interfund transfers. The fourth quarter of 2007 was beginning to show signs of a potential economic slowdown and by April of 2008, the recession was in full force for the City and the region. Material operating and capital expenditure reductions, \$1,618 and \$3,563 respectively, were required to meet new projected revenues. Fourth quarter revenues of the tax supported funds saw a dramatic downturn beyond midyear reductions that challenged the governmental funds in meeting their end of year reserve goals. The expenditures in excess of the Amended 2008 Budget within the Executive Department were the result of general operating budget reductions not formally allocated to other departments and are offset within the General Fund by savings in other departments. Significant unspent amounts in Public Works and Planning were due to unfinished capital projects.

**REQUIRED SUPPLEMENTARY INFORMATION
LEOFF 1 REIREDD MEDICAL BENEFITS
SCHEDULE OF FUNDING PROGRESS**

Fiscal Year Ended	Actuarial Value of Assets	Accrued Liability Entry Age	Unfunded Actuarial Accrued (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
12/31/2008	\$0	\$1,083	\$1,083	0%	\$0	0%

CITY OF BAINBRIDGE ISLAND
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
REVENUES				
Operating Revenues:				
Property taxes	6,250,000	6,250,000	6,140,693	(109,307)
Other taxes	7,470,081	7,470,081	6,881,675	(588,406)
Fees and fines	312,000	312,000	196,437	(115,563)
Licenses and permits	317,000	317,000	440,159	123,159
Intergovernmental	619,000	697,104	823,240	126,136
Charges for Services	1,148,000	1,148,000	1,113,379	(34,621)
Interest	250,000	250,000	62,891	(187,109)
Other revenues	475,000	475,000	59,323	(415,677)
Total Operating Revenues	<u>16,841,081</u>	<u>16,919,185</u>	<u>15,717,799</u>	<u>(1,201,386)</u>
EXPENDITURES				
Operating Expenditures:				
General government	6,078,702	4,564,171	3,766,580	797,591
Judicial	589,427	641,047	649,875	(8,828)
Public safety	3,588,625	3,672,883	3,536,364	136,519
Physical environment	1,156,531	983,439	999,343	(15,904)
Transportation	-	-	117	(117)
Health and human services	491,222	451,309	452,200	(891)
Economic environment	1,739,670	1,839,466	2,035,831	(196,365)
Culture and recreation	832,343	1,199,902	852,678	347,224
Debt service:				
Principal	497,826	497,826	264,305	233,521
Interest	277,806	277,806	68,434	209,372
Interfund Loan	-	-	-	-
Capital outlay	3,680,869	802,073	404,993	397,080
Total Operating Expenditures	<u>18,933,021</u>	<u>14,929,922</u>	<u>13,030,720</u>	<u>1,899,202</u>
Operating Income (Loss)	(2,091,940)	1,989,263	2,687,079	697,816
OTHER FINANCING SOURCES/USES				
Proceeds of Long Term Debt	5,700,000	5,700,000	224,528	(5,475,472)
Transfers-In	-	-	-	-
Transfers-Out	(1,381,000)	(1,381,000)	(3,886,176)	(2,505,176)
Total other financing sources/uses	<u>4,319,000</u>	<u>4,319,000</u>	<u>(3,661,648)</u>	<u>(7,980,648)</u>
SPECIAL ITEM				
Proceeds from sale of capital assets	-	-	20,863	20,863
Net change in fund balance	2,227,060	6,308,263	(953,706)	(7,261,969)
Fund balances--beginning	3,225,556	3,225,556	753,906	(2,471,650)
Prior Period Adjustments	-	-	-	-
Ending Fund Balance - Restricted	-	-	78,772	78,772
Ending Fund Balance - Unrestricted	<u>5,452,616</u>	<u>9,533,819</u>	<u>(278,571)</u>	<u>(9,812,390)</u>
Total Ending Fund Balance	<u><u>5,452,616</u></u>	<u><u>9,533,819</u></u>	<u><u>(199,800)</u></u>	<u><u>(9,733,619)</u></u>

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

CITY OF BAINBRIDGE ISLAND
Budgetary Comparison Schedule
Special Revenue Fund-Streets
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
REVENUES				
Operating Revenues:				
Property taxes	-	-	-	-
Other taxes	575,000	575,000	490,898	(84,102)
Fees and fines	-	-	-	-
Licenses and permits	30,000	30,000	51,727	21,727
Intergovernmental	580,000	1,103,825	790,905	(312,920)
Charges for Services	-	-	-	-
Interest	5,000	5,000	-	(5,000)
Other revenues	470,000	470,000	386,165	(83,835)
Total Operating Revenues	<u>1,660,000</u>	<u>2,183,825</u>	<u>1,719,696</u>	<u>(464,129)</u>
EXPENDITURES				
Operating Expenditures:				
General government	403,619	403,619	424,739	(21,120)
Judicial	-	-	-	-
Public safety	908	762,044	574,042	188,002
Physical environment	106,691	106,691	99,360	7,331
Transportation	2,337,574	2,287,179	2,240,096	47,083
Health and human services	-	-	-	-
Economic environment	-	-	91,819	(91,819)
Culture and recreation	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Interfund Loan	-	-	-	-
Capital outlay	191,793	296,793	208,523	88,270
Total Operating Expenditures	<u>3,040,585</u>	<u>3,856,326</u>	<u>3,638,579</u>	<u>217,747</u>
Operating Income (Loss)	(1,380,585)	(1,672,501)	(1,918,883)	(246,382)
OTHER FINANCING SOURCES/USES				
Proceeds of Long Term Debt	-	-	-	-
Transfers-In	1,325,000	1,325,000	1,875,957	550,957
Transfers-Out	-	-	-	-
Total other financing sources/uses	<u>1,325,000</u>	<u>1,325,000</u>	<u>1,875,957</u>	<u>550,957</u>
SPECIAL ITEM				
Proceeds from sale of capital assets	-	-	410	410
Net change in fund balance	(55,585)	(347,501)	(42,515)	304,986
Fund balances--beginning	56,162	56,162	(141,704)	(197,866)
Prior Period Adjustments	-	-	-	-
Ending Fund Balance - Restricted	-	-	-	-
Ending Fund Balance - Unrestricted	<u>577</u>	<u>(291,339)</u>	<u>(184,219)</u>	<u>107,120</u>
Total Ending Fund Balance	<u>577</u>	<u>(291,339)</u>	<u>(184,219)</u>	<u>107,120</u>

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

CITY OF BAINBRIDGE ISLAND
Budgetary Comparison Schedule
Debt Service Fund-GO Bond
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
REVENUES				
Operating Revenues:				
Property taxes	560,000	560,000	548,908	(11,092)
Other taxes	-	-	-	-
Fees and fines	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for Services	-	-	-	-
Interest	-	-	-	-
Other revenues	-	-	-	-
Total Operating Revenues	<u>560,000</u>	<u>560,000</u>	<u>548,908</u>	<u>(11,092)</u>
EXPENDITURES				
Operating Expenditures:				
General government	-	-	-	-
Judicial	-	-	-	-
Public safety	-	-	-	-
Physical environment	-	-	-	-
Transportation	-	-	-	-
Health and human services	-	-	-	-
Economic environment	-	-	-	-
Culture and recreation	-	-	-	-
Debt service:	-	-	-	-
Principal	-	-	1,359,855	1,359,855
Interest	-	-	1,008,128	1,008,128
Interfund Loan	-	-	-	-
Capital outlay	-	-	-	-
Total Operating Expenditures	<u>-</u>	<u>-</u>	<u>2,367,983</u>	<u>2,367,983</u>
Operating Income (Loss)	560,000	560,000	(1,819,075)	2,356,892
OTHER FINANCING SOURCES/USES				
Proceeds of general long term debt	-	-	-	-
Transfers-In	1,525,000	1,525,000	1,865,458	340,458
Transfers-Out	-	-	-	-
Total other financing sources/uses	<u>1,525,000</u>	<u>1,525,000</u>	<u>1,865,458</u>	<u>340,458</u>
SPECIAL ITEM				
Proceeds from sale of capital assets	-	-	-	-
Net change in fund balance	2,085,000	2,085,000	46,383	2,697,350
Fund balances--beginning	(1,249)	(1,249)	1,552	2,801
Prior Period Adjustments	-	-	-	-
Ending Fund Balance - Restricted	-	-	-	-
Ending Fund Balance - Unrestricted	<u>2,083,751</u>	<u>2,083,751</u>	<u>47,935</u>	<u>(2,035,816)</u>
Total Ending Fund Balance	<u><u>2,083,751</u></u>	<u><u>2,083,751</u></u>	<u><u>47,935</u></u>	<u><u>(2,035,816)</u></u>
The accompanying notes are an integral part of this financial statement.				



ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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