

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

City of Bainbridge Island
Kitsap County

Audit Period
January 1, 2010 through December 31, 2010

Report No. 1006518

Issue Date
September 30, 2011



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

September 30, 2011

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

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Bainbridge Island's financial statements and compliance with federal laws and regulations.

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Table of Contents

City of Bainbridge Island Kitsap County January 1, 2010 through December 31, 2010

Federal Summary	1
Schedule of Federal Audit Findings and Questioned Costs.....	3
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with <i>Government Auditing Standards</i>	7
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	9
Independent Auditor's Report on Financial Statements.....	12
Financial Section.....	14

Federal Summary

City of Bainbridge Island Kitsap County January 1, 2010 through December 31, 2010

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

FINANCIAL STATEMENTS

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

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

- **Significant Deficiencies:** We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified deficiencies that we consider to be material weaknesses.

We issued a qualified opinion on the City's compliance with requirements applicable to its major federal program.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
11.438	Pacific Coast Salmon Recovery - Pacific Salmon Treaty Program

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

The City did not qualify as a low-risk auditee under OMB Circular A-133.

Schedule of Federal Audit Findings and Questioned Costs

City of Bainbridge Island
Kitsap County
January 1, 2010 through December 31, 2010

1. The City of Bainbridge Island did not have adequate internal controls to ensure compliance with requirements for its Salmon Recovery grant.

CFDA Number and Title:	11.438 – Pacific Coast Salmon Recovery – Pacific Salmon Treaty Program
Federal Grantor Name:	US Department of Commerce, National Oceanic & Atmospheric Administration
Federal Award/Contract Number:	
Pass-through Entity Name:	Washington State Recreation & Conservation Office
Pass-through Award/Contract Number:	08-1971 R and 06-2294 R
Questioned Cost Amount:	\$0

Background

Davis-Bacon (prevailing wage) Act

For federally funded construction projects that exceed \$2,000, the Davis-Bacon Act requires contractors to pay at least the minimum federally prescribed prevailing wage. In addition, contracts for these projects must contain language notifying the contractor it must comply with prevailing wage law. The Act also requires recipients of federal funds to obtain weekly certified payrolls for all contractors and subcontractors to ensure prevailing wages are paid.

Suspension and debarment

Recipients of federal grants are prohibited from contracting with or making subawards to parties that are suspended or debarred from doing business with the federal government. If a vendor certifies in writing that its organization has not been suspended or debarred, the grantee may rely on that certification. Alternatively, the grantee may check for suspended or debarred parties by reviewing the federal Excluded Parties List issued by the U.S. General Services Administration. This requirement should be met prior to the first payment to the vendor.

Description of Condition

In 2010 the City spent \$394,459 in federal money through the Salmon Recovery Funding Board program for two projects:

- Strawberry Plant Shoreline Restoration Construction Project (\$298,776)

- Pritchard Park East Bluff Shoreline Restoration Project (\$95,683)

Under the grant agreement, the City was responsible for following federal and state laws and regulations.

During our audit, we noted internal controls were not adequate to ensure compliance with federal prevailing wage and suspension and debarment requirements. The City did not include the federal requirements in its contract with the contractor. In addition, the City did not monitor to ensure contractors paid federal prevailing wage and did not obtain weekly certified payrolls. Further, the City did not perform procedures to ensure the contractor was not suspended and/or debarred.

Cause of Condition

One City department secured the funding and managed the grant. Another department managed the construction phase. That the project was federally funded was not communicated between the departments. As a result, the City did not use the controls it normally would have for federally financed construction projects.

Effect of Condition

Without adequate internal controls, the City cannot ensure the contractors paid workers the proper wages. The City could be liable for paying additional wages if prevailing wage was not paid.

Without adequate internal controls over suspension and debarment the City cannot ensure federal funds are paid to vendors that are eligible to participate in federal programs. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency. Although the process was not followed, the contractor selected was not suspended or debarred. Therefore, we are not questioning costs.

Recommendation

We recommend the City establish and follow procedures to ensure it communicates federal requirements to all staff responsible for administering federal programs.

City's Response

We have received your report finding to the single audit of the financial statements for 2010. The City of Bainbridge Island (City) views itself as a steward of the taxpayer's money and welcomes the opportunity provided by the audit to improve our financial records and statements. We see audits as a collaborative effort and value the increase in our knowledge of, and approach to, all aspects of financial management. Thank you for your visit.

Where possible, we have taken immediate corrective steps in relationship to points raised in your draft finding. You noted that the City did not have adequate internal controls over federal suspension and debarment requirements and prevailing wage (Davis-Bacon) requirements. Further, you noted that the City, in one instance, was not in compliance with Davis-Bacon requirements. This finding is related to federal funding

spent in 2010 on two projects, the Strawberry Plant Shoreline Restoration Construction Project and the Pritchard Park East Bluff Shoreline Restoration Project. As you note in your summary, the funding for this project was secured by one City department, whereas the project was managed by another department. In the transition, the information about the federal source of funds was not adequately transmitted from one department to the next. The City frequently manages federally-funded projects, and has existing procedures to fully comply with all Davis-Bacon Act requirements.

The reason the City did not comply was related to an unusual situation in which a public works project was managed by the Planning and Community Development Department and the project staff in the Planning Department separated from the city without providing clear instructions to the Public Works Department staff person that assumed the project. This will not happen again for two reasons:

- 1) In the future, all public works projects will be managed in the Public Works Department.*
- 2) The Public Works Department has existing procedures in place for complying with Federal Funding requirements during the construction phase of the project. Attached is a capital project checklist that speaks to this; specifically items 23, 26 and 48.*

Thank you for the opportunity to respond to your letter.

Auditor's Remarks

We appreciate the steps the City is taking to resolve this issue. We thank City staff for the assistance we received during the audit.

Applicable laws and Regulations

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, states:

Section .300

The auditee shall

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Title 29, Code of Federal Regulations, Section 3.3(b) states in part:

Each contractor or subcontractor engaged on the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by this part 3 and part 5 of this chapter during the preceding weekly payroll period.

Title 29, Code of Federal Regulations, Section 5.5(a) states in part:

The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of \$2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in laborers and mechanics employed or working upon the site of the work...will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account . . . the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics.

Washington Administrative Code 296-127-025, Applicability of joint federal-state standards, states:

(1) When a public works project is subject to the provisions of the Washington state public works law, chapter 39.12 RCW, and the Federal Davis-Bacon and related acts, the contractor and every subcontractor must pay at least the Washington state prevailing wage rates, if they are higher than the federal prevailing wage rates for the project unless specifically preempted by federal law.

(2) When the federal prevailing wage rates are higher than the Washington state prevailing wage rates, the contractor shall pay the federal rate as required by federal law.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person.

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, 2010 through December 31, 2010**

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bainbridge Island, Kitsap County, Washington, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 22, 2011.

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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

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

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 22, 2011

**Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct
and Material Effect on Each Major Program and
on Internal Control over Compliance in
Accordance with OMB Circular A-133**

City of Bainbridge Island
Kitsap County
January 1, 2010 through December 31, 2010

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

COMPLIANCE

We have audited the compliance of the City of Bainbridge Island, Kitsap County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2010. The City's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

As described in Finding 1 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the City did not comply with requirements regarding Davis-Bacon Act that are applicable to the Pacific Coast Salmon Recovery - Pacific Salmon Treaty Program. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to the program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1 to be a significant deficiency.

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

This report is intended for the information of management, the Mayor and City Council, federal awarding agencies and pass-through entities. However, this report is a matter of public record

and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" written in a larger, more prominent script than the last name "Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 22, 2011

Independent Auditor's Report on Financial Statements

City of Bainbridge Island Kitsap County January 1, 2010 through December 31, 2010

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bainbridge Island, Kitsap County, Washington, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed on page 14. 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, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 15 through 21, budgetary comparison on pages 64 through 66 and information on postemployment benefits other than pensions on page 64 are not a required part of the basic financial statements but are supplementary

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

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

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

September 22, 2011

Financial Section

City of Bainbridge Island Kitsap County January 1, 2010 through December 31, 2010

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2010

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2010
Statement of Activities – 2010
Balance Sheet – Governmental Funds – 2010
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds – 2010
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2010
Statement of Net Assets – Proprietary Funds – 2010
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds – 2010
Statement of Cash Flows – Proprietary Funds – 2010
Statement of Net Assets – Fiduciary Funds – 2010
Notes to Financial Statements – 2010

REQUIRED SUPPLEMENTAL INFORMATION

Budgetary Changes – 2010
LEOFF 1 Retiree Medical Benefits – Schedule of Funding Progress Update for 2010 – 2010
Budgetary Comparison Schedule – General Fund – 2010
Budgetary Comparison Schedule – Special Revenue Fund – Streets – 2010

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards – 2010
Notes to the Schedule of Expenditures of Federal Awards – 2010



CITY OF BAINBRIDGE ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010

This discussion and analysis of the City of Bainbridge Island financial results for the calendar and fiscal year ending December 31, 2010, provides a narrative discussion intended to 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 \$123,652. Of this amount, \$11,986 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$4,969. This increase was due in part to action taken by the City to reevaluate and revise downward revenue estimates and make corresponding budgetary expenditure reductions. The City made substantial mid-year changes to its 2010 budget, cutting over \$1,400 from the operating budget through a strategic combination of staffing and service reductions. These ongoing reductions place the City on a more secure financial footing. In addition, the City accepted a \$2,000 settlement from the Washington State Ferry System. The cash settlement has been set aside as a reserve with the stated intention of the Council and administration to hold this money while discussing plans for this one-time infusion of cash.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,645, an increase of \$3,920 in comparison to the prior year.
- Total revenues of the Governmental Activities, net of capital grants and contributions, increased by \$2,060 as compared to 2009.
- The City's total debt for general obligation bonds, intergovernmental loans, and other long-term liabilities decreased by \$587 during the year.

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 in following sections 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 for 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 the City's net assets changed during the most recent fiscal year. All current year revenues and expenses are taken into account regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

In the **Statement of Net 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 functional groups are as follows:

- **Governmental activities** - Most of the City's basic services are reported in this category, including General Government, Judicial, Police, Planning and Community Development and Public Works. Property taxes, sales and other taxes, user fees, interest income, franchise fees, and state and federal grants finance these activities.
- **Business-type activities** - The City charges fees to customers to cover 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 18-19 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). For the City of Bainbridge Island, these funds include the General Fund, the Streets Fund and the General Obligation Bond Fund. All Other Governmental Funds are reported in a single column (Non-Major Funds).

The **Governmental Fund Financial Statements** can be found on pages 20-22 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. The City has no Internal Service funds at this time. The City uses Enterprise Funds to account for Business-Type Activities that charge fees to customers for the use of specific goods or services. Balances and activities accounted for in the City's Enterprise Funds are also reported in the Business-Type Activities columns of the Government-Wide Financial Statements.

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

The basic **Proprietary Fund Financial Statements** can be found on pages 23-26 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 27 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 30-56 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 in 2010 began to stabilize, though at a lower level of revenue, staff and services. Continued reductions to staffing and other expenditures are planned for 2011 through the 2011 Adopted Budget. The City's overall financial position and results of operations for the past two years are summarized below. This information is based on data in the Government-Wide Financial Statements (see pages 18-19):

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Cash and Cash Equivalents	5,556	1,704	3,158	1,402	8,713	3,106
Other Assets	2,788	2,763	4,207	4,594	6,994	7,358
Capital Assets	103,300	105,388	44,568	43,452	147,868	148,840
Total Assets	111,643	109,855	51,932	49,448	163,575	159,303
Other Liabilities	1,410	1,164	556	911	1,966	2,076
Long Term Debt	23,831	25,200	14,126	13,344	37,957	38,544
Total Liabilities	25,241	26,365	14,683	14,255	39,923	40,620
Invested in Capital Assets	80,083	80,695	30,823	30,455	110,906	111,150
Restricted	761	1,127	0	0	761	1,127
Unrestricted	5,559	1,669	6,426	4,738	11,986	6,407
Total Net Assets	86,403	83,490	37,249	35,193	123,652	118,683

In 2010, total net assets of the City increased \$4,969, or about 4.2%. Governmental Type net assets increased \$2,913, or 3.5%, of which \$2,000 was a cash settlement from the Washington State Ferries. Business Type assets increased \$2,056, or 5.8%. The increases to the cash positions of the funds are due in part to dramatic action taken by the City to reevaluate revenue estimates and make substantial budgetary expenditure reductions including a voluntary separation program to offer cash incentives to those employees who chose to leave City employment, layoffs of nine filled positions, and elimination or significant reductions to professional and community service contracts and several capital projects.

Operations	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Program Revenues						
Charges for Services	1,251	1,185	8,727	8,147	9,978	9,332
Operating Grants/Contributions	704	596	89	126	793	722
Capital Grants/Contributions	712	1,102	92	394	804	1,496
Total Program Revenues	2,667	2,883	8,908	8,668	11,574	11,551
General Revenues						
Property Taxes	6,974	6,912	0	0	6,974	6,912
All Other Taxes	8,082	7,998	0	0	8,082	7,998
Interest	45	38	29	111	74	149
Other Revenues	2,674	942	0	28	2,675	970
Total General Revenues	17,776	15,890	29	139	17,805	16,029

Operations	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Program Expenses						
General Government	5,031	5,112			5,031	5,112
Judicial	684	651			684	651
Public Safety	3,954	3,665			3,954	3,665
Physical Environment	650	436			650	436
Transportation	3,025	3,138			3,025	3,138
Health and Human Services	442	412			442	412
Economic Environment	1,283	1,706			1,283	1,706
Culture and Recreation	876	417			876	417
Water			1,726	2,043	1,726	2,043
Sewer			2,504	2,382	2,504	2,382
Storm and Surface Water Management			2,080	1,865	2,080	1,865
Building and Development Services			2,052	2,712	2,052	2,712
Total Program Expenses	15,945	15,537	8,362	9,002	24,308	24,539
Excess/Deficiency	4,497	3,236	575	(195)	5,072	3,041
Other						
Transfers	(1,641)	(1,889)	1,641	1,889	0	0
Special Items	0	0	(159)	0	(159)	0
Changes in Net Assets	2,856	1,347	2,057	1,694	4,913	3,041
Beginning Net Assets	83,490	82,068	35,193	33,499	118,683	115,567
Prior Period Adjustments	56	75	0	0	56	75
Ending Net Assets	86,403	83,490	37,249	35,193	123,652	118,683

GOVERNMENTAL ACTIVITIES

In 2010 there was an increase in net assets related to Governmental Activities of \$2,913 compared to an increase of \$1,422 the prior year. Total program revenues decreased by \$214, with a small increase in charges for services offset by a decrease in capital grants and contributions. The most significant revenue component of the Governmental Activities is the general tax base, representing 85% of the total general revenues in 2010. Program expenses increased by 2.6% overall in Governmental Activities due to several factors including one-time expenses for projects and the increasing cost of health insurance. Three of the eight program categories, General Government, Transportation, and Economic Environment, showed a decrease in expenses in 2010 as compared to 2009.

BUSINESS-TYPE ACTIVITIES

In 2010 there was an increase in net assets related to Business-Type Activities of \$2,056.

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 \$1,188. The Building and Development Services activity recovered only 42% of its costs with program revenues; an operating transfer from the General Fund provides additional revenue to cover program costs. Rate increases in future years could increase the percentage of costs recovered through program revenues. Additionally, greater economic activity in the region could lead to more program revenue without a compensating increase in program expenses.

ANALYSIS OF BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

The **General Fund** balance increased \$3,800 due to the \$2,000 settlement from the Washington State Ferry System, the \$1,236 sale of two pieces of property and the realignment of revenue estimates, expenditure reductions and decreased operating support to the Street Fund. As a result, the General Fund ended the year with a positive fund balance of \$3,753 versus (\$48) for 2009.

The **Street Fund** accounted for \$2,172 in street and road maintenance costs compared to \$2,102 in 2009. Both program revenues and expenses stayed flat in 2010. The Street Fund began 2010 with a fund deficit of (\$71). The 2010 ending fund balance was \$.02, representing an increase of \$71.

GENERAL FUND BUDGETARY HIGHLIGHTS

The 2010 Adopted Budget passed by the City Council in December 2009 anticipated an increase in the budgetary fund balance during the year of \$636, from an estimated year-end fund balance of \$1,016 at year-end 2009 to \$1,652 at year-end 2010. However, the 2009 year-end fund balance was (\$48) and significant budget reductions were made. In December 2010 a final amended budget was passed with an estimated final General Fund fund balance of \$2,897, or an increase of \$1,881. The actual ending fund balance was \$3,753, an increase of \$3,800 over the beginning of the year. Significant economic challenges faced the City through the end of 2010 and continue to challenge operations and capital projects well into 2011. To learn more about the City's budget process and economic challenges, see Note No. 1.D. 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 \$147,868 in **CAPITAL ASSETS** (net of depreciation), a decrease of \$972. Approximately 70% 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:

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	69,616	71,107	1,797	1,797	71,413	72,904
Buildings & Improvements	15,743	16,296	41	41	15,784	16,337
Improvements other than Bldgs	0	0	0	0	0	0
Intangible Assets	880	880	32	32	912	912
Vehicles and Equipment	7,701	7,352	2,258	2,251	9,958	9,603
Infrastructure	28,031	25,941	38,727	38,513	66,758	64,453
Construction in Progress	3,951	5,048	16,405	14,670	20,355	19,718
Accumulated Depreciation	(22,622)	(21,236)	(14,691)	(13,853)	(37,313)	(35,088)
Totals	103,300	105,388	44,568	43,452	147,868	148,840

Additional information about the City's Capital Assets is presented in Note No. 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 \$23,830. This was an overall decrease from the previous year of \$1,370, including normal retirements of \$1,490. Of the debt outstanding at the end of 2010, 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 \$14,126, an increase from the previous year of \$782.

The debt position of the City is summarized below and in Note No. 10 in the Notes to the Financial Statements.

Long-Term Obligations	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds	22,090	23,580	860	1,055	22,950	24,635
Intergovernmental Loans	600	534	11,187	11,942	11,787	12,475
Land Purchase Contracts	566	774	0	0	566	774
Bond Anticipation Note	0	0	1,698	0	1,698	0
Capital Leases	137	(0)	0	0	137	(0)
Compensated Absences	509	447	382	347	891	794
Other Post-Employment Benefits	105	60	0	0	105	60
Unamortized Bond Discounts and Premiums	269	309	0	0	269	309
Unamortized Loss on Refunding Prior Long-Term Debt	(445)	(504)	0	0	(445)	(504)
Totals	23,831	25,200	14,126	13,344	37,957	38,544

ECONOMIC AND OTHER FACTORS

The national and regional economic slowdown that began in 2008 continued through 2009 and 2010. The 2010 budget was first adopted in December 2009, was amended in early 2010, with the final amended budget adopted in May 2010. City Council and staff amended the budget in recognition of reductions in revenue estimates greater than the estimates used in the original budget work. Operating reductions included further decreasing the number of City positions, continuing a work furlough program of 10 days for non-sworn fulltime positions, deferrals and reductions of capital projects, curtailing professional service contracts, and the 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 2010 tax receipts. This loan was repaid with interest in May 2010.

General Fund Revenues for 2010 were \$1,661 (10.9%) over the final amended budget. Street Fund Revenues were \$215 (13.8%) under the final amended budget. Total revenues in the City's Waterworks Utility were \$3,248 (23%) under budget due to delay in a planned bond issue, decreased consumer demand due to above average rainfall, and to lower connection and system participation fees due to new construction slowdowns. Building and Development revenues were \$87 (11.3%) over the final amended budget, though the fund still required substantial operating transfers from the General Fund. It is expected that there will be general revenue challenges through 2011. However, the 2011 adopted budget and 2012 endorsed budget were developed to acknowledge the current fiscal context and bring recurring expenses below recurring revenues and begin to fund prudent financial reserves.

CITY OF BAINBRIDGE ISLAND
Statement of Net Assets
As of December 31, 2010

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 5,555,689	\$ 3,157,731	\$ 8,713,420
Receivables - Net	1,825,899	623,774	2,449,673
Due from Other Funds	80,443	-	80,443
Due from Other Governments	292,973	38,965	331,938
Inventories	103,626	63,747	167,373
Prepays	130,943	-	130,943
Deferred Charges	328,579	7,273	335,852
Special Assessments - Deferred	25,197	3,472,847	3,498,044
Capital Assets - Net of Accumulated Depreciation	28,853,064	26,366,292	55,219,356
Land	69,616,032	1,796,865	71,412,897
Construction in Progress	3,950,769	16,404,544	20,355,313
Other Capital Assets	880,000	-	880,000
Total Assets	111,643,214	51,932,038	163,575,252
LIABILITIES			
Accounts Payable	671,179	172,164	843,344
Accrued Expenses	558,320	240,667	798,987
Due to Other Funds	80,443	-	80,443
Deferred Revenue	-	143,267	143,267
Other Current Liabilities	100,000	-	100,000
Compensated Absences	508,686	381,920	890,606
Due Within One Year	1,763,582	955,119	2,718,701
Due in More Than One Year	21,558,472	12,789,444	34,347,915
Total Liabilities	25,240,683	14,682,580	39,923,263
NET ASSETS			
Invested in Capital Assets - Net of Related Debt	80,082,643	30,823,139	110,905,782
Restricted For:			
Public Art	208,493	-	208,493
Civic Improvement	169,306	-	169,306
Police Special Operations	54,914	-	54,914
Department of Energy Grant	100,000	-	100,000
Debt Service - GO Bond	232	-	232
Construction - Bond Proceeds	382,585	-	382,585
Unrestricted	5,404,357	6,426,319	11,830,676
Total Net Assets	\$ 86,402,531	\$ 37,249,458	\$ 123,651,989

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

CITY OF BAINBRIDGE ISLAND
Statement of Activities
For the Year Ended December 31, 2010

	Program Revenues				Net Expense/Revenue and Changes in Net Assets
	Primary Government				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General Government	\$ 4,041,027	\$ 930,257	\$ 534	\$ -	\$ (3,110,236)
Judicial	683,998	182,603	-	-	(501,396)
Public Safety	3,953,939	107,303	93,666	186,130	(3,566,840)
Physical Environment	649,607	1,889	88,543	-	(559,175)
Transportation	3,024,998	26,957	520,318	13,220	(2,464,503)
Health and Human Services	441,751	-	-	-	(441,751)
Economic Environment	1,283,476	1,910	520	-	(1,281,046)
Culture and Recreation	876,286	-	-	512,846	(363,440)
Interest on Long Term Debt	990,360	-	-	-	(990,360)
Total Government Activities	15,945,442	1,250,917	703,581	712,196	(13,278,747)
Business-Type Activities:					
Water	1,725,866	2,409,439	-	22,144	705,717
Sewer	2,504,265	2,922,113	-	69,513	487,362
Storm and Surface Water Management	2,079,970	2,530,996	89,446	-	540,472
Building and Development Services	2,051,961	864,091	-	-	(1,187,871)
Total Business-Type Activities	8,362,061	8,726,639	89,446	91,657	545,680
Total Primary Government	\$ 24,307,503	\$ 9,977,556	\$ 793,027	\$ 803,853	\$ (12,733,067)
General Revenues:					
Property Taxes Levied for General Purposes					\$ 6,439,488
Property Taxes Levied for Other Purposes					534,603
Sales and Use Taxes					2,899,479
Business and Occupation Taxes					4,120,449
Excise Taxes					1,061,988
Penalties and Interest					20,261
Unrestricted Investment Earnings					7,754
Grants and Contributions not Restricted to Specific Programs					21,491
Miscellaneous					301,892
Special Item - Abandoned Sewer Project					372,398
Extraordinary Item - Washington State Ferry Settlement Proceeds					227
Transfers					(159,285)
Total General Revenues, Extraordinary, Special Items, and Transfers					2,000,000
Change in Net Assets					(1,641,000)
Prior Period Adjustments					16,134,543
Net Assets - Beginning					2,855,796
Net Assets - Ending					56,430
					83,490,305
					\$ 86,402,531
					\$ 37,249,458
					\$ 123,651,989

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

CITY OF BAINBRIDGE ISLAND
Balance Sheet Statement
Governmental Funds
As of December 31, 2010

	General	Streets	GO Bonds	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 4,412,030	\$ 92,477	\$ 232	\$ 1,050,950	\$ 5,555,689
Receivables - Net	2,968	647	-	56,204	59,820
Due From Other Funds	80,443	-	-	-	80,443
Due From Other Governments	-	-	-	169,211	169,211
Unmatured Assessments	-	-	-	25,197	25,197
Total Assets	\$ 4,495,441	\$ 93,124	\$ 232	\$ 1,301,563	\$ 5,890,360
LIABILITIES					
Accounts Payable	\$ 369,340	\$ 28,203	\$ -	\$ 246,374	\$ 643,916
Accrued Expenses	370,499	64,254	-	1,496	436,249
Due to Other Funds	-	-	-	80,443	80,443
Deferred Revenue	2,968	647	-	81,401	85,017
Total Liabilities	742,807	93,104	-	409,714	1,245,625
FUND BALANCES					
Reserved, Reported In:					
Public Art	208,493				208,493
Police Special Operations	49,914				49,914
Emergency Reserve	351,400				351,400
Reserve for Department of Energy Grant	100,000				100,000
Capital Project Funds				586,615	586,615
Unreserved, Reported In:					
General Fund	3,042,827			-	3,042,827
Special Revenue Funds		20		249,517	249,538
Debt Service Fund			232	55,716	55,949
Total Fund Balances	3,752,634	20	232	891,849	4,644,736
Total Liabilities and Fund Balances	\$ 4,495,441	\$ 93,124	\$ 232	\$ 1,301,563	\$ 5,890,360

Amounts reported for governmental activities in the Statement of Net Assets are different because of the following:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation	\$ 103,299,865
Inventory purchases used in governmental activities, including prepayments, are not financial resources and therefore are not reported in the funds	234,568

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

Unamortized Debt Issuance Costs	328,579
Accounts Receivable - Earned but Unavailable	1,889,841
Deferred Revenue	85,017
Accrued expenses and compensated absences are not due and payable in the current period and therefore are not reported in the funds	(758,021)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(23,322,054)

Net Assets of Major Governmental Activities

\$ 86,402,531

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, 2010

	General	Streets	GO Bond	Governmental	Governmental
REVENUES					
Property Taxes	\$ 6,426,313	\$ -	\$ 534,603	\$ -	\$ 6,960,916
Other Taxes	6,500,123	467,214	-	1,139,290	8,106,627
Fees and Fines	182,788	-	-	-	182,788
Licenses and Permits	431,538	26,069	-	-	457,607
Intergovernmental	737,251	518,927	-	631,806	1,887,983
Charges for Services	586,240	887	-	220	587,348
Interest and Investment Revenue	17,724	-	-	7,262	24,986
Other Revenues	72,714	335,664	-	184,586	592,964
Total Revenues	14,954,690	1,348,761	534,603	1,963,164	18,801,218
EXPENDITURES					
Current					
General Government	3,331,451	349,901	-	-	3,681,352
Judicial	674,830	-	-	-	674,830
Public Safety	3,694,392	24,913	-	-	3,719,305
Physical Environment	583,076	57,940	-	-	641,016
Transportation	-	1,711,511	-	56,289	1,767,800
Health and Human Services	441,751	-	-	-	441,751
Economic Environment	1,157,932	-	-	119,830	1,277,762
Culture and Recreation	727,600	-	-	-	727,600
Debt Service - Principal	83,130	-	1,548,520	-	1,631,650
Debt Service - Interest	47,560	-	963,873	-	1,011,433
Capital Outlay	479,737	28,000	-	1,345,597	1,853,334
Total Expenditures	11,221,459	2,172,265	2,512,393	1,521,716	17,427,833
Excess/(deficiency) of Revenue over Expenditures	3,733,231	(823,504)	(1,977,790)	441,448	1,373,385
OTHER FINANCING SOURCES/(USES)					
Disposition of Capital Assets	1,247,473	4,310	-	799,488	2,051,271
Capital Lease	136,534	-	-	-	136,534
Extraordinary Item - Washington State Ferry Settlement Proceeds	2,000,000	-	-	-	2,000,000
Transfers In	234,290	890,100	1,978,000	-	3,102,390
Transfers Out	(3,551,197)	-	-	(1,192,193)	(4,743,390)
Total Other Financing Sources/Uses	67,100	894,410	1,978,000	(392,705)	2,546,805
Net Change in Fund Balance	3,800,331	70,906	210	48,744	3,920,190
Fund Balances - Beginning	(47,696)	(70,886)	23	843,105	724,546
Fund Balances - Ending	\$ 3,752,634	\$ 20	\$ 232	\$ 891,849	\$ 4,644,736

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 Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2010

Net Change in fund balances - Total governmental funds \$ 3,920,190

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

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.

Expenditures for capital assets	\$	1,853,334	
Less: Current year depreciation		(1,957,881)	
			(104,547)

Revenue in the Statement of Activities that do not provide current financial resources are reported as revenues in the funds. (370,342)

Basis in Williams property sold to Bainbridge Island Metropolitan Park and Recreation District and a portion of Vincent Road landfill property sold to Bainbridge Island Disposal. (2,039,910)

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		(136,534)	
Redemption of Long-Term Debt		1,631,650	
			1,495,117

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. (44,712)

Change in Net Assets of Governmental Activities		\$	2,855,796
---	--	----	-----------

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, 2010

	Business-Type Activities - Enterprise Funds				Total
	Water	Sewer	Storm and Surface Water Management	Building and Development Services	
ASSETS					
Current Assets					
Cash and Cash Equivalents	\$ 1,756,074	\$ 182,348	\$ 851,658	\$ 367,652	\$ 3,157,731
Receivables - Net	142,106	383,366	165,108	1,003	691,583
Interfund Loans Receivable	3,000,000	-	-	-	3,000,000
Due From Other Governments	-	-	38,965	-	38,965
Inventories	50,415	2,881	10,452	-	63,747
Non-Current Assets					
Deferred Charges	-	7,273	-	-	7,273
Special Assessments	-	3,472,847	-	-	3,472,847
Capital Assets - Net of Accumulated Depreciation	11,185,645	6,870,929	8,306,772	2,946	26,366,292
Land	637,436	834,874	324,555	-	1,796,865
Construction in Progress	399,160	15,512,513	492,870	-	16,404,544
TOTAL ASSETS	17,170,836	27,267,030	10,190,381	371,600	54,999,847
LIABILITIES					
Current Liabilities					
Accounts Payable	8,385	93,884	53,281	16,614	172,164
Accrued Expenses	30,072	144,746	56,497	77,162	308,476
Interfund Loans Payable	-	3,000,000	-	-	3,000,000
Deferred Revenue	-	-	-	143,267	143,267
Compensated Absences	156,682	82,762	53,296	89,180	381,920
Current Portion of Long-Term Debt	-	904,416	50,703	-	955,119
Non-Current Liabilities					
Bonds, Loans, and Other Debt	-	12,089,148	700,296	-	12,789,444
TOTAL LIABILITIES	195,139	16,314,955	914,073	326,222	17,750,389
NET ASSETS					
Invested in Capital Assets - Net of Related Debt	12,222,242	10,224,752	8,373,199	2,946	30,823,139
Net Assets - Unrestricted	4,753,455	727,323	903,109	42,432	6,426,319
TOTAL NET ASSETS	\$ 16,975,697	\$ 10,952,075	\$ 9,276,308	\$ 45,378	\$ 37,249,458

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

CITY OF BAINBRIDGE ISLAND
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the year ended December 31, 2010

	Water	Sewer	Storm and Surface Water Management	Building & Development Services	Totals
OPERATING REVENUES					
Charges for Services	\$ 2,424,923	\$ 2,906,629	\$ 2,530,996	\$ 864,091	\$ 8,726,639
Miscellaneous	0	0	89,446	0	89,446
Total Operating Revenues	2,424,923	2,906,629	2,620,442	864,091	8,816,084
OPERATING EXPENSES					
Personal Services	724,523	957,557	1,058,051	1,530,002	4,270,133
Contractual Services	203,994	152,845	237,007	369,954	963,801
Utilities	106,056	212,093	75,274	2,373	395,797
Repairs and Maintenance	33,936	33,721	32,781	8,743	109,180
Miscellaneous Expense	8,766	7,486	16,037	4,993	37,282
Other Supplies and Expenses	307,402	471,320	403,112	27,902	1,209,736
Insurance Claims and Expenses	46,762	106,928	58,700	107,257	319,646
Depreciation	294,427	348,083	195,130	737	838,377
Total Operating Expenses	1,725,866	2,290,034	2,076,091	2,051,961	8,143,952
Operating Income (Loss)	699,057	616,595	544,351	(1,187,871)	672,133
NON-OPERATING REVENUES (EXPENSES)					
Interest and Investment Revenue	12,224	4,294	4,973	0	21,491
Miscellaneous Revenue	40,658	8,043	5,861	4,919	59,480
Interest Expense	0	(265,731)	(3,879)	0	(269,610)
Total Non-Operating Revenues (Expenses)	52,882	(253,394)	6,955	4,919	(188,639)
Net income/(loss) before contributions and transfers	751,939	363,201	551,306	(1,182,952)	483,494
Special Item - Abandoned Sewer Project	0	(159,285)	0	0	(159,285)
Capital Contributions	22,144	69,513	0	0	91,657
Transfers In	0	0	0	1,641,000	1,641,000
Change in Net Assets	774,083	273,429	551,306	458,048	2,056,866
Net Assets - Beginning	16,217,098	10,663,162	8,725,002	(412,670)	35,192,592
Prior Period Adjustments	(15,484)	15,484	0	0	0
Total Net Assets - Ending	\$ 16,975,697	\$ 10,952,075	\$ 9,276,308	\$ 45,378	\$ 37,249,458

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, 2010

Page 1 of 2

	Business-Type Activities				Total
	Water	Sewer	Storm and Surface Water Management	Building and Development Services	
Cash Flows from Operating Activities					
Receipts from Customers	2,348,437	3,298,801	2,528,661	863,618	9,039,516
Payments to Suppliers	(725,166)	(1,200,761)	(809,003)	(577,802)	(3,312,732)
Payments to Employees	(723,519)	(907,917)	(1,044,692)	(1,505,065)	(4,181,192)
Other Receipts/Payments	-	-	89,446	-	89,446
Net Cash Provided (Used) by Operating Activities	899,752	1,190,123	764,411	(1,219,249)	1,635,037
Cash Flows from Non-Capital Financing Activities					
Operating Subsidies and Transfers to Other Funds	-	-	-	1,641,000	1,641,000
Cash Flows from Capital and Related Financing Activities					
Capital Contributions	22,144	69,513	-	-	91,657
Purchases of Capital Assets	(116,767)	(1,825,359)	(171,337)	-	(2,113,463)
Proceeds From Issuing Long-Term Debt	-	1,697,788	-	-	1,697,788
Principal Paid on Capital Debt	-	(899,416)	(50,703)	-	(950,119)
Interest Paid on Capital Debt	-	(144,971)	(3,879)	-	(148,850)
Other Receipts and/or Payments	25,174	(95,414)	5,861	(54,148)	(118,528)
Net Cash Provided (Used) by Capital and Related Financing Activities	(69,450)	(1,197,859)	(220,058)	(54,148)	(1,541,514)
Cash Flows from Investing Activities					
Interest and Dividends	12,224	4,294	4,973	-	21,491
Interfund Loans Issued	-	-	-	-	-
Net Cash Provided (Used) by Investing Activities	12,224	4,294	4,973	-	21,491
Net Increase/(Decrease) in Cash and Cash Equivalents	842,526	(3,442)	549,326	367,603	1,756,014
Balances - Beginning of the Year	913,547	185,790	302,332	48	1,401,717
Balances - End of the Year	1,756,074	182,348	851,658	367,652	3,157,731

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, 2010

Page 2 of 2

	Business-Type Activities				Total
	Water	Sewer	Storm and Surface Water Management	Building and Development Services	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income/(Loss)	699,057	616,595	544,351	(1,187,871)	672,133
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities					
Depreciation	294,427	348,083	195,130	737	838,377
Change in Assets and Liabilities:					
Receivables - Net	(76,486)	392,171	(2,335)	(473)	312,877
Inventories	5,710	108	(583)	-	5,234
Accounts Payable	(23,960)	(216,476)	14,490	(56,579)	(282,525)
Accrued Expenses	(4,730)	40,471	5,128	13,263	54,132
Compensated Absences	5,735	9,170	8,230	11,674	34,809
Net Cash Provided by Operating Activities	<u>899,752</u>	<u>1,190,123</u>	<u>764,411</u>	<u>(1,219,249)</u>	<u>1,635,037</u>
Noncash Investing, Capital, and Financing Activities					
Special Item - Abandoned Project	-	(159,285)	-	-	(159,285)

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, 2010

ASSETS	<u>Agency Funds</u>
Cash and Cash Equivalents	<u>\$ 305,849</u>
Total Assets	<u><u>\$ 305,849</u></u>
LIABILITIES	
Accounts Payable	\$ 10,522
Custodial Accounts	<u>295,328</u>
Total Liabilities	<u><u>\$ 305,849</u></u>

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

CITY OF BAINBRIDGE ISLAND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE I – 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.

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

General Fund

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

Street Fund

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

General Obligation Bond Fund

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

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

Water Fund

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

Sewer Fund

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

Storm & Surface Water Management Fund

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

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

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

Building & Development Services Fund

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

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 Street Fund and all Proprietary Funds to reimburse the General Fund for the cost of owning and operating the shared facilities of City Hall and the Public Works yard. This interfund rent is considered a "quasi-external transaction" and is allowed under GAAP as though the rent were paid to an unrelated party (the government-to-government charges have been eliminated in accordance with GAAP). The only other exceptions to this general rule are the payment of City utility taxes on the City's own Water, Sewer, and Storm and Surface Water Management Utilities and the payment of City utility fees by the Street Fund to the Storm and Surface Water Management Fund.

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

I. Scope of Budget

Budgets are adopted at the fund level for all funds on the modified accrual basis of accounting, which is consistent and in compliance with GASB Statement No. 34 reporting. Expenditures are limited to the following: the total appropriated for the current year by fund total; the unexpended balances of a preceding budget; funds from the issuance of long-term debt; funds in excess of estimated revenue when authorized by Ordinance; and expenditures required for emergencies.

2. Procedures for Adopting the Original Biennial Budget

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

- a. Prior to the second Monday in September of an even year, the Finance Director requests all department heads to prepare detailed estimates of revenue and expenditures for the next fiscal year and that they be filed with the Finance Director by the fourth Monday in September.
- b. The Finance Director presents estimates to the City Manager 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 business day in October.
- d. The City Manager prepares the preliminary budget and message, files it with the City Clerk, and delivers it to the City Council no later than 60 days before the ensuing fiscal year.
- e. The City Council holds public hearings on taxes and the proposed budget, proposes and makes adjustments and adopts a balanced final budget prior to December 31.

3. Amending the Budget

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

4. Deficit Fund Equity

As of December 31, 2010 there were no funds with deficit fund equity.

E. Assets, Liabilities and Equities

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

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

I. Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. The City considers cash and cash equivalents to include cash on hand, demand deposits, and all short-term investments with original maturities of three months or less from date of acquisition. At December 31, 2010 the City was holding \$9,019,269 (including \$305,849 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, 2010 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, 2010 and 2009 the City had taxes receivable of \$1,417,238 and \$1,411,228 respectively.

Special Assessments are recorded in special assessment registers when levied, in the Local Improvement District (LID) Debt Service Fund for regular LIDs and in the Enterprise Fund for Utility LIDs. As of December 31, 2010 and 2009 the City had \$869 and \$434 respectively in delinquent Special Assessments receivable compared to total cash of \$55,716 and \$43,239 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 2010 is \$1,381,070 (\$1,131,096 considered uncollectible) compared to \$1,305,631 (\$1,055,472 considered uncollectible) for 2009.

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

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

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as Interfund Loans Receivable/Payable. As of fiscal year end 2010 there was a \$3,000,000 interfund loan to the Sewer Fund from the Water Fund outstanding for completion of the Wastewater Treatment Plant Upgrade project due to legal actions taken by the Bainbridge Rate Payers Alliance. This same loan was the only outstanding interfund loan at the end of fiscal year 2009. The City also has reimbursement grants and other receivables from the State, Federal and local governments. Those amounts totaled \$331,938 and \$444,655 for fiscal years

2010 and 2009, respectively. A separate schedule of interfund loans receivable and payable is furnished in Note No. 12 – Interfund Balances and Transactions.

4. Inventories

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

5. Capital Assets

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

The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. These assets are recorded at historical cost or estimated historical cost. Donated Capital Assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

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

Property, Plant and Equipment 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.

6. 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, floating holidays and time spent on standby.

Vacation pay may be accumulated up to a maximum of 320 hours in 2010 and is payable upon termination, resignation, retirement or death. Compensating time off may be accumulated up to a maximum of 160 hours (120 for law enforcement officers) and may be taken at any time or paid out

at the employee's request. Standby time represents compensating time off for employees who are required to be available on standby during non-working hours and may be taken at any time or paid out at the employee's request. Floating holidays represent 1) holidays worked and subsequently accrued by law enforcement officers that may be taken at any time or paid out at the officer's request and 2) one floating holiday per non-law enforcement employee per year. Non-law enforcement employees can carry their floating holidays into the next year but they must be used before regular vacation time and they are not payable upon separation from City employment. For law enforcement officers floating holidays may be carried into future years and may be taken at any time or paid out at the officer's request.

Sick leave may accumulate up to 1040 hours. Upon separation from City employment outstanding sick leave is not paid to the employee. 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, 2010 and 2009 is as follows:

	2010	2009
Vacation	\$695,888	\$631,937
Compensating Time	91,244	75,938
Standby Time	25,102	20,972
Floating Holidays	78,372	65,616
Total	\$890,606	\$794,463

7. Other Current Liabilities

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

8. Long-term Debt

See Note No. 10 – Debt and Leases.

9. Deferred Revenues

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

10. Fund Reserves and Designations

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

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

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

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

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

- The Governmental Funds’ Statement of Revenues, Expenditures and Changes in Fund Balances includes reconciliation between net changes in 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, bankers’ acceptances and deposits in Washington State financial institutions. All funds were invested in the Washington State Treasurer’s Investment Pool, the Kitsap County Treasurer’s Investment Pool or Sterling Savings Bank’s Government Investment Pool and are marked to market monthly by those entities. All of these pools are non-rated. On the City’s balance sheet, these pool investments are considered cash equivalents. As a matter of policy, the City does not use reverse repurchase agreements (because of the difficulty in perfecting collateral) and 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, 2010 the City held the following investments not subject to categorization:

Investment in State Treasurer’s Investment Pool *	\$ 969,010
Investment in Kitsap County Treasurer’s Investment Pool *	5,050,981
Investment in Sterling Savings Bank Governmental Investment Pool *	2,000,027
Total Investments *	\$8,020,018

* 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

The first of two equal installment payments is due

May 31

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

October 31

The 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% to the lower of 1% 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 2010, 2009 and 2008:

Year	KRLD/BIFD Levy Rate	City Maximum Allowable Levy Rate	City Actual Levy Rate
2010	\$1.1249	\$2.4751	\$1.0335
2009	\$1.0166	\$2.5834	\$0.9364
2008	\$1.0046	\$2.5954	\$0.9397

The City's regular levy for 2010 at \$1.0335 per \$1,000 assessed valuation on an assessed valuation of \$6.246 billion produced a total levy of \$6.455 million.

Special levies approved by the voters are in addition to the regular levy stated above and are not subject to limitations. From 1990 to 2002, the City had no special levies outstanding. In December 2002 the City issued \$4.5 million in voted Open Space General Obligation bonds. In July 2004 the City issued an additional \$3.5 million in voted Open Space General Obligation bonds. The special levy rate for those issues combined is \$0.0863 in 2010 and \$0.0804 in 2009.

NOTE 6 – CAPITAL ASSETS

A. Capital assets activity for the year ended December 31, 2010 was as follows:

Governmental Activities	Beginning Balance 01/01/2010	Increases	Decreases	Ending Balance 12/31/2010
Capital Assets not depreciated:				
Land	\$ 71,106,978	\$ 599,639	\$ (2,090,585)	\$ 69,616,032
Construction In Progress	5,047,952	-	(1,097,183)	3,950,769
Development Rights (Intangible)	880,000	-	-	880,000
Total Capital Assets not depreciated	\$ 77,034,930	\$ 599,639	\$ (3,187,768)	\$ 74,446,801
Capital Assets, depreciable:				
Buildings	\$ 16,296,261	\$ 139,538	\$ (692,882)	\$ 15,742,917
Improvements other than Buildings	4,121,881	188,267	(4,310,148)	-
Machinery and Equipment	7,351,886	467,024	(117,956)	7,700,954
Infrastructure	21,818,637	6,392,779	(180,441)	28,030,975
Total Capital Assets, depreciable	\$ 49,588,665	\$ 7,187,608	\$ (5,301,427)	\$ 51,474,846
Less accumulated depreciation for:				
Buildings	\$ (4,266,112)	\$ (404,995)	\$ 310,891	(4,360,216)
Improvements other than Buildings	(706,241)	(313,405)	1,019,647	-
Machinery and Equipment	(5,820,223)	(1,854,434)	1,467,222	(6,207,435)
Infrastructure	(10,443,127)	(1,865,580)	254,576	(12,054,131)
Total Accumulated Depreciation	\$ (21,235,703)	\$ (4,438,414)	\$ 3,052,335	\$ (22,621,782)
Total Capital Assets, depreciable, net	\$ 28,352,963	\$ 2,749,194	\$ (2,249,092)	\$ 28,853,064
Total Governmental Activities Capital Assets, net	\$ 105,387,892	\$ 3,348,833	\$ (5,436,861)	\$ 103,299,865

Business-Type Activities	Beginning Balance 01/01/2010	Increases	Decreases	Ending Balance 12/31/2010
Capital Assets not depreciated:				
Land	\$ 1,796,865	\$ -	\$ -	\$ 1,796,865
Construction In Progress	14,670,367	2,114,206	(380,029)	16,404,544
Total Capital Assets not depreciated	\$ 16,467,232	\$ 2,114,206	\$ (380,029)	\$ 18,201,409
Capital Assets, depreciable:				
Buildings	\$ 40,619	\$ -	\$ -	\$ 40,619
Computer Software	32,365	-	-	32,365
Machinery and Equipment	2,251,312	6,203	-	2,257,515
Infrastructure	38,512,973	213,798	-	38,726,771
Total Capital Assets, depreciable	\$ 40,837,270	\$ 220,001	\$ -	\$ 41,057,270
Less accumulated depreciation for:				
Buildings	\$ (7,573)	\$ (917)		\$ (8,490)
Computer Software	(32,365)	-	-	(32,365)
Machinery and Equipment	(1,797,772)	(106,187)		(1,903,958)
Infrastructure	(12,014,891)	(731,273)		(12,746,164)
Total Accumulated Depreciation	\$ (13,852,601)	\$ (838,377)	\$ -	\$ (14,690,978)
Total Capital Assets, depreciable, net	\$ 26,984,668	\$ (618,376)	\$ -	\$ 26,366,292
Total Business-Type Activities Capital Assets, net	\$ 43,451,900	\$ 1,495,830	\$ (380,029)	\$ 44,567,701

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

Governmental Activities	2010	2009
General Government	\$ 343,639	\$ 368,511
Judicial	5,070	5,070
Public Safety	166,695	133,806
Physical Environment	5,968	7,559
Transportation	1,315,130	1,482,644
Economic Environment	-	8,695
Culture and Recreation	121,380	23,259
Total Depreciation - Governmental Activities	\$ 1,957,881	\$ 2,029,545
Business-Type Activities	2010	2009
Water Utility	\$ 294,427	\$ 298,075
Sewer Utility	348,083	351,059
Storm and Surface Water Management Utility	195,130	193,982
Building and Development Services	737	1,636
Total Depreciation - Business-Type Activities	\$ 838,377	\$ 844,753

C. Construction Commitments

The City had several active construction projects in Construction In Progress as of December 31, 2010. However, because they were either between the design and construction phases (Winslow Way reconstruction) or nearly complete (Wastewater Treatment Plant Upgrade), there were no significant outstanding construction commitments at year-end.

NOTE 7 – PENSION PLANS

Substantially all of the City's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to 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 defined benefit plan with a defined contribution component.

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

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

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW 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 monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) is granted at age 66 based

upon years of service times the COLA amount, which is increased 3 percent annually. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance is granted at age 66 based upon years of service times the COLA amount (based on the consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

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

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

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

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

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions. Effective July 22, 2007 said refund (adjusted as needed for specified legal reductions) is increased from 100 percent to 200 percent of the accumulated contributions if the member's death occurs in the uniformed service to the United States while participating in *Operation Enduring Freedom* or *Persian Gulf*, *Operation Iraqi Freedom*.

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 monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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

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

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

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

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

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

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

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

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

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

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

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

There are 1,189 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	74,857
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,074
Active Plan Members Vested	105,339
Active Plan Members Non-vested	53,896
Total	262,166

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 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. 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 Director of the Department of Retirement Systems sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 percent 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. However, no City judge, past or present, participates in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2010 are as follows:

Members Not Participating in JBM:

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

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

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

*** Plan 3 defined benefit portion only.

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

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2010	\$8,459	\$291,988	\$70,565
2009	\$19,495	\$411,547	\$89,852
2008	\$27,983	\$470,986	\$91,057

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

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

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only 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 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined allowances of 60 percent of the FAS;

or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

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

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

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

LEOFF Plan 2 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 2 percent of the FAS per year of service. (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 3 percent for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A catastrophic disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

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

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

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

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

LEOFF Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while servicing in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may purchase service credit on behalf of the deceased member.

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

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

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

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

There are 372 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	9,454
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	674
Active Plan Members Vested	13,363
Active Plan Members Non-vested	3,944
Total	27,435

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, 2010 are as follows:

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

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

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

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

	LEOFF Plan 1	LEOFF Plan 2
2010	\$0	\$96,361
2009	\$0	\$96,821
2008	\$0	\$93,873

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 over 145 members.

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

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

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$500,000 for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance.

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 agreement, WCIA retains the right to additionally assess the membership for any funding shortfall.

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

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

During the three years ending December 31, 2010 four payments were made that were not fully covered by insurance. \$17,000 was paid in July 2010 to settle a road construction case. \$1,000 was paid in March 2010 to settle a boundary line dispute. \$31,328 was paid in January 2010 in partial settlement of a utility rate and bond case (see Note No. 11 – Claims, Contingencies, Litigation and Other Liabilities). \$495,000 was paid in August of 2009 for settlement of a case involving building fees.

NOTE 9 – SHORT TERM DEBT

Short-term debt activities for the year ended December 31, 2010 were as follows:

Debt	Beginning Balance 1/1/2010	Issued	Redeemed	Ending Balance 12/31/2010
Cashmere Valley Bank - Waste Water Treatment Plant Upgrade Bond Anticipation Note (BAN)	\$ -	\$ 1,697,788	\$ -	\$ 1,697,788

This BAN (line-of-credit) is a general obligation debt of the City with a pledge of sewer utility revenues. It is authorized for up to \$1,900,000 although only \$1,697,788 has been drawn as of December 31, 2010. The interest rate floats and is calculated at 80% of the Wall Street Journal prime rate. The BAN's rate at December 31, 2010 was 2.93%. The entire BAN is due December 1, 2011. The City intends to refinance this BAN, and the \$3,000,000 interfund loan from the Water Fund to the Sewer Fund, with a 20 year sewer utility bond in late summer 2011.

NOTE 10 – 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 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 or local improvement district (LID) bonds outstanding although one Washington State Public Works Trust Fund (PWTF) Loan is designated as LID debt and one is designated as revenue debt. Limited-Tax General Obligation Bonds still outstanding have been used to refinance revenue bonds. In such cases, the outstanding bonds are being repaid entirely from utility revenues 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.

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

Type of Debt or Related Item	Governmental Activities	Business-Type Activities
Unlimited Tax General Obligation Bonds	\$ 6,390,000	\$ -
Limited Tax General Obligation Bonds	15,700,000	860,000
Limited Tax General Obligation Long-Term Debt	1,166,245	4,011,751
Revenue Obligation Long-Term Debt		3,010,022
Local Improvement District Obligation Long-Term Debt		4,165,000
Long-Term Debt analyzed in this Note below	23,256,245	12,046,773
Other Components of Debt:		
Capital Leases - See Note No. 10.C.2.	136,534	
Other Post Employment Benefits - See Note No. 15.	104,832	
Compensated Absences - See Note No. 1.E.6.	508,686	381,920
Bond Anticipation Note - See Note No. 9.		1,697,788
Unamortized Bond Discounts, Premiums and Issuance Costs	269,020	
Unamortized Loss on Refunding of Prior Long-Term Debt	(444,577)	
Total General Long-Term Debt reported on the Statement of Net Assets	\$ 23,830,741	\$ 14,126,481

General Obligation Bonds outstanding as of December 31, 2010 are as follows:

Purpose	Interest Rates	Governmental Activities	Business-Type Activities
Open Space Acquisitions	2.50 - 4.70%	\$ 6,390,000	\$ -
City Hall Construction, Roads, Open Space	3.25 - 4.70%	5,355,000	
Refinance Sewer Improvement Bonds	4.20 - 4.50%		860,000
Refinance Facilities Improvement Bonds	3.00 - 5.00%	10,345,000	
Total General Obligation Bonds		\$ 22,090,000	\$ 860,000

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

Year Ending	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 1,655,000	\$ 896,691	\$ 200,000	\$ 37,770
2012	1,840,000	838,398	210,000	29,170
2013	1,905,000	772,873	215,000	20,035
2014	1,975,000	702,179	235,000	10,575
2015	2,055,000	628,806		
2016-2020	8,090,000	1,912,356		
2021-2025	3,625,000	595,347		
2026-2030	945,000	62,191		
Total	\$ 22,090,000	\$ 6,408,836	\$ 860,000	\$ 97,550

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

Purpose	Interest Rates	Governmental Activities	Business-Type Activities
Purchase 15 acres of agricultural land	7.60%	\$ 549,000	\$ -
Purchase 5 Acres for Open Space	7.50%	17,000	
PWTF Loan for Street Improvements	1.00%	174,278	
PWTF Loan for Emergency Storm Street Repairs	3.00%	425,968	
PWTF Loan Storm Drain Decant Facility Design	0.50%		133,631
PWTF Loan Sewage Treatment Plant Design	0.50%		295,225
PWTF Loan Storm Drain Decant Facility Constr.	0.50%		617,368
PWTF Loan Sewage Treatment Plant Constr. Loan #1	0.50%		2,965,528
Total Other General Obligation Debt		\$ 1,166,245	\$ 4,011,751

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

Year Ending	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 75,520	\$ 57,521	\$ 269,492	\$ 20,059
2012	158,520	49,487	269,492	18,711
2013	158,520	40,829	269,492	17,364
2014	158,520	32,170	269,492	16,016
2015	158,520	23,512	269,492	14,669
2016 - 2020	267,324	45,602	1,347,462	53,133
2021 - 2025	118,324	21,298	1,316,828	19,445
2026 - 2030	70,996	4,261		
Total	\$ 1,166,245	\$ 274,680	\$ 4,011,751	\$ 159,397

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

Purpose	Interest Rates	Governmental Activities	Business-Type Activities
PWTF Loan Sewage Treatment Plant Constr. Loan #2	0.50%	\$ -	\$ 3,010,022
Total Revenue Obligation Debt		\$ -	\$ 3,010,022

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

Year Ending	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2011	\$ -	\$ -	\$ 188,126	\$ 15,050
2012			188,126	14,109
2013			188,126	13,169
2014			188,126	12,228
2015			188,126	11,288
2016 - 2020			940,633	42,328
2021 - 2025			940,633	18,813
2026 - 2030			188,126	941
Total	\$ -	\$ -	\$ 3,010,022	\$ 127,926

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

Purpose	Interest Rates	Governmental Activities	Business-Type Activities
PWTF Loan South Island Sewer Lines Constr.	0.50%	\$ -	\$ 4,165,000
Total LID Obligation Debt		\$ -	\$ 4,165,000

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

Year Ending	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2011	\$ -	\$ -	\$ 297,500	\$ 20,825
2012			297,500	19,338
2013			297,500	17,850
2014			297,500	16,363
2015			297,500	14,875
2016 - 2020			1,487,500	52,063
2021 - 2025			1,190,000	14,875
Total	\$ -	\$ -	\$ 4,165,000	\$ 156,188

In Proprietary Funds and in the Government-Wide Statements 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 \$9,900,000 in LTGO Bonds, of which a portion pre-refunded and defeased the remaining \$1,000,000 outstanding of the City's 1994 LTGO Bonds (issued to upgrade the City's Sewage Treatment Plant).

As of December 31, 2010 the City has \$232 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.

B. Changes in Long-Term Liabilities

During the year ending December 31, 2010 the following changes occurred in long-term liabilities:

	Beginning Balance Jan. 1, 2010	Additions	Reductions	Ending Balance Dec. 31, 2010	Due Within One Year
Governmental Activities:					
Unlimited Tax General Obligation Bonds	\$ 6,640,000	\$ -	\$ (250,000)	\$ 6,390,000	\$ 260,000
Limited Tax General Obligation Bonds	16,940,000		(1,240,000)	15,700,000	1,395,000
Total Bonds Payable	23,580,000	-	(1,490,000)	22,090,000	1,655,000
Land Purchase Contracts	619,130		(53,130)	566,000	17,000
Capital Leases		136,534		136,534	33,062
Loans from Other Gov'ts	658,765		(58,520)	600,245	58,520
Compensated Absences	447,351	289,534	(228,199)	508,686	250,000
OPEB Payable	59,830	89,535	(44,533)	104,832	45,000
Total Governmental Activity long-term liabilities	\$ 25,365,076	\$ 515,603	\$ (1,874,382)	\$ 24,006,297	\$ 2,058,582
Business-Type Activities:					
Limited Tax General Obligation Bonds	\$ 1,055,000	\$ -	\$ (195,000)	\$ 860,000	\$ 200,000
Loans from Other Gov'ts	11,941,893		(755,119)	11,186,773	755,119
Compensated Absences	347,111	164,316	(129,507)	381,920	145,000
Bond Anticipation Note	-	1,697,788	-	1,697,788	1,697,788
Total Business-Type Activity long-term liabilities	\$ 13,344,004	\$ 1,862,104	\$ (1,079,626)	\$ 14,126,481	\$ 2,797,907

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

C. Leases

I. Operating Leases

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

2. Capital Leases

Capital Lease Obligations outstanding at December 31, 2010 are as follows:

Purpose	Interest Rate	Amount
Capital Lease – Police Vehicles & Survey Equipment	3.23%	\$ 136,534
Total Capital Lease Obligations		\$ 136,534

The assets acquired through Capital Leases are as follows:

Asset	Governmental Activity	Business-Type Activity
Telephone System	\$ 387,392	\$ 0
Vehicles	798,989	
Survey Equipment	28,000	
Less Accumulated Depreciation	(1,101,738)	
Total	\$ 112,643	\$ 0

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2010 are as follows:

Year Ending December 31	Governmental Activity	Business-Type Activity
2011	\$ 36,466	\$ 0
2012	36,466	
2013	36,466	
2014	36,466	
Less Interest	(9,330)	
Present Value of Minimum Lease Payments	\$ 136,534	\$ 0

NOTE 11 – CLAIMS, CONTINGENCIES, LITIGATION AND OTHER LIABILITIES

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

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

There is no requirement to pay out accumulated sick leave (see Note No. I.E.6. – Compensated Absences). However, employees can draw on that time in the future if sick or injured. As of December 31, 2010 and 2009 the value of total accumulated sick leave was \$1,264,046 and \$1,205,291 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, 2010 and 2009 was \$104,050 and \$106,219 respectively.

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

In 2001 the City purchased the closed Vincent Road Landfill from Kitsap County. At that time the City and County had completed closure of the site. The City maintains several monitoring wells at the site and is responsible for all future monitoring costs as well as any remedial expenses that might arise should the closure efforts fail. In 2010 the City sold a portion of the site to Bainbridge Island Disposal. The City still retains a portion of the site and the related potential future remedial expenses.

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

On April 22, 2009 the City received notice of the first of two lawsuits by the Bainbridge Ratepayers Alliance (“BRA”), a nonprofit corporation. BRA I challenged and sought to enjoin the City’s process for issuing bonds and bond anticipation notes to finance the completion of the construction of Wastewater Treatment Plant modifications. The lawsuit also claimed that the City’s utility rates are excessively high and that proceeds of the rates have been used for non-utility purposes and are, therefore, an illegal tax.

Because of the lawsuit, short-term project financing through Cashmere Valley Bank had to be extended. In addition, on May 15, 2009 the City authorized an interfund loan from the Water Fund to the Sewer Fund of up to \$3,000,000. This allowed the City to continue the project and to address legal challenges related to the project’s long-term financing. This interfund loan was extended into 2011 as the suit was still pending at year-end 2010.

On September 4, 2009 the Kitsap County Superior Court dismissed without prejudice the lawsuit’s non-bond-related claims, noting that those claims could be re-filed later. The court also granted the City’s motion to dismiss the claims regarding the issuance and validity of the bonds for the project. That decision was upheld by the Washington State Court of Appeals on December 7, 2010. As a result, the City was able to issue \$5,700,000 in LTGO bonds on August 24, 2011 (see Note No. 19 – Subsequent Events).

The non-bond claims of the original lawsuit are the subject of a second lawsuit, (“BRA II”), filed March 25, 2010. In July 2011 the Kitsap County Superior Court issued a preliminary ruling on 2 of the 12 issues. One of the rulings favored the City and one favored the BRA. However, the Court’s rulings will not be final until the trial is over and all 12 issues have been decided. A trial date has not been set as of

September 21, 2011 and the City does not anticipate that this issue will be resolved until later in 2012, at the earliest. At this point the City is unable to assess the outcome or fiscal impact of this second lawsuit.

NOTE 12 – INTERFUND BALANCES AND TRANSACTIONS

A. Interfund Balances

At year-end December 31, 2010 the City had a \$3,000,000 interfund loan payable due from the Sewer fund to the Water Fund. This interfund loan was authorized by the City Council in 2009 to finance part of the City's Wastewater Treatment Plant Upgrade construction. The interest rate is calculated at the higher of the City's two investment pool rates plus 25 basis points. The rate at December 31, 2010 was 1.35%. The entire interfund loan is due December 1, 2011. The City intends to refinance this interfund loan, and the \$1,697,788 bond anticipation note from Cashmere Valley Bank, with a 20 year sewer utility bond in late summer 2011.

B. Interfund transfers

Interfund transfers for the year ended December 31, 2010 were as follows:

	Transfers from General Fund	Transfers from Housing Fund	Transfers from Real Estate Excise Tax Fund	Total	Purpose of Transfer
Receiving Fund:					
General Fund	\$ -	\$ 234,290	\$ -	\$ 234,290	
Streets Fund			890,100	890,100	Operating subsidy
General Obl. Bond Fund	1,910,197		67,803	1,978,000	Debt Service
Bldg. & Dev. Svcs. Fund	1,641,000			1,641,000	Operating subsidy
Total Governmental Activities	\$ 3,551,197	\$ 234,290	\$ 957,903	\$ 4,743,390	

As discussed in Note No. 1.E.3. (Interfund and Intergovernmental Receivables) the City also paid internal economic rent, internal utility taxes and internal sewer, water and storm and surface water utility fees for various City facilities in 2010 but chose to treat these activities as quasi-external transactions as allowed under GAAP.

The City does not split most of its tax receipts between funds; rather, it recognizes them in its General Fund, certain Special Revenue Funds and the General Obligation Bond Fund (for certain voted bonds). As a result, the City routinely transfers money from the General and the Real Estate Excise Tax Funds to the Street and Building Development Services Funds as operating subsidies and to the General Obligation Bond Fund to pay for debt service. As shown above, these transfers are often significant. In addition, the City has in the past funded 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. This matching transfer activity was suspended by the City Council for 2010 and the Affordable Housing Fund was folded into the General Fund.

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.

NOTE 13 – RECEIVABLE AND PAYABLE BALANCE

A. Receivables

Receivables (net of amounts determined to be uncollectible) at December 31, 2010 were as follows:

	Accounts	Taxes	Special Assessments	Due from Other Govts or Funds	Other	Total
Governmental Activities:						
General Government	\$ 101,836	\$ 1,397,033	\$ -	\$ 80,977	\$ -	\$ 1,579,846
Public Safety				4,555		4,555
Transportation	647			8,506		9,153
Culture & Recreation	47,909	20,205		234,242		302,355
Judicial	249,974					249,974
Phys. Environment			33,493	45,136		78,629
Total Governmental Activities	\$ 400,365	\$ 1,417,238	\$ 33,493	\$ 373,416	\$ -	\$ 2,224,512
Business-Type Activities:						
Water	\$ 60,791	\$ -	\$ 13,507	\$ 3,000,000	\$ 67,809	\$ 3,142,106
Sewer	82,904		3,773,308			3,856,213
Storm & Surface Water	165,108			38,965		204,073
Bldg. & Dev. Svcs.	1,003					1,003
Total Business-Type Activities	\$ 309,806	\$ -	\$ 3,786,815	\$ 3,038,965	\$ 67,809	\$ 7,203,394

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. I.E.2. (Receivables) for detailed information regarding the Allowance for Doubtful Accounts in the business type activities.

B. Payables

Payables at December 31, 2010 were as follows:

	Vendors	Salaries and Benefits	Due to Other Governments or Funds	Other	Total
Governmental Activities:					
General Government	\$ 227,695	\$ 187,543	\$ -	\$ -	\$ 415,238
Public Safety	129,479	154,369			283,848
Transportation	141,964	65,002	80,443	122,072	409,481
Culture and Recreation	113,762	748			114,510
Judicial	23,978	28,587			52,564
Physical Environment				100,000	100,000
Economic Environment	18,850				18,850
Health and Human Service	15,452				15,452
Total Governmental Activities	\$ 671,179	\$ 436,249	\$ 80,443	\$ 222,072	\$ 1,409,943
Business-Type Activities:					
Water	\$ 8,385	\$ 30,072	\$ -	\$ -	\$ 38,457
Sewer	93,884	43,038	3,000,000	101,707	3,238,629
Storm & Surface Water	53,281	54,578		1,919	109,778
Bldg. & Dev. Svcs.	16,614	77,162			93,775
Total Business-Type Activities	\$ 172,164	\$ 204,849	\$ 3,000,000	\$ 103,627	\$ 3,480,640

NOTE 14 – 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 2,300 customers, primarily in the Winslow area. Its Sewer Utility provides wastewater collection in the South Island and Lynwood Center area to roughly 200 customers, and collection and treatment in the Winslow area to roughly 1,900 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 15 – POSTRETIREMENT BENEFITS OTHER THAN RETIREMENT

The City has no termination benefits other than accrued compensated absences described in Note No. I.E.6. (Compensated Absences) and Note No. 10 (Debt and Leases) and as described below for the Law Enforcement Officers and Firefighters (LEOFF) retirement system for employees hired before October 1, 1977.

Plan Description

As required by RCW 41.26, the City provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a defined benefit healthcare plan administered by the City. The members' necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, other pension plan or any other similar source are covered. One of the City's employee medical insurance programs provides most medical coverage for eligible retirees. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions. Financial reporting for the LEOFF retiree healthcare plan is included in Note No. 7 (Pension Plans).

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2010. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB. The net OPEB obligation (NOO) of \$104,832 is included as a noncurrent liability on the Statement of Net Assets.

	Fiscal Year Ending <u>12/31/2010</u>
Determination of Annual Required Contribution:	
Normal Cost at year end	\$ 0
Amortization of UAAL*	92,414
Interest for year	<u>0</u>
Annual Required Contribution	<u>\$ 92,414</u>
Determination of Net OPEB Obligation:	
Annual Required Contribution	\$ 92,414
Interest on prior year Net OPEB Obligation	2,692
Adjustment to ARC	<u>(5,571)</u>
Annual OPEB Cost	89,535
Contributions made	<u>(44,533)</u>
Increase in Net OPEB Obligation	45,002
Net OPEB Obligation-beginning of year	<u>59,830</u>
Net OPEB Obligation-end of year	<u>\$ 104,832</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 2010 and the two prior years is as follows:

Fiscal Year Ending	Annual OPEB Cost	% of OPEB Cost	Contribution as a Net Obligation
12/31/2010	\$ 89,535	49.7%	\$ 104,832
12/31/2009	\$ 97,778	38.8%	\$ 59,830
12/31/2008	\$ 100,866	37.6%	\$ 62,919

Funded Status and Funding Progress

As of January 1, 2010, the most recent calculation date, the plan was 0% funded. The accrued liability for benefits was \$992,483 and the actuarial value of the assets was \$0 resulting in a UAAL of \$992,483. 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 56.24 was assumed for all active members for determining the actuarial accrued liability. Termination and mortality rates were assumed to follow the LEOFF I termination and mortality rates used in the June 30, 2007 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the statewide LEOFF I medical study performed in 2007. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the actuarial accrued liability (AAL) was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 16 – SPECIAL AND EXTRAORDINARY ITEMS

Special Items: Under GASB Statement No. 34 Special Items are defined as significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. During 2010 the City chose to abandon \$159,285 in design and engineering expenses related to a proposed wastewater treatment facility in the Point Monroe area. Significant outside funding, primarily from the Washington State Department of Ecology, became unavailable due to the poor State economy.

Extraordinary Items: Under GASB Statement No. 34 Extraordinary Items are defined as significant transactions or other events that are both unusual in nature and infrequent in occurrence. In December 2010 the Washington State Ferry System settled a long standing lawsuit and the City received a \$2,000,000 settlement that the City Council chose to put into unreserved fund balance in the General Fund.

NOTE 17 – PRIOR PERIOD ADJUSTMENTS

During 2010 a prior period adjustment of \$56,430 in the governmental activities portion of the Statement of Activities corrected prior year capital asset acquisition errors found during conversion to new software. Additionally, a \$15,484 adjustment corrected a misclassification error between the Water and Sewer Funds for expenses related to the Waterfront Park Restroom construction.

NOTE 18 - OTHER DISCLOSURES

The residents of the City of Bainbridge Island voted on May 19, 2009 in favor of changing from the Mayor-Council form of government to a Council-Manager form of government and on May 27, 2009 at a regularly scheduled City Council meeting had the First Reading of Ordinance No. 2009-12 accepting that change. The City received confirmation on June 3, 2009 from the office of the Kitsap County Auditor of the returns of the May 19, 2009 Special Election. The measure passed with 69.70% of the votes cast. The City Council held a Special Meeting that evening for Second Reading and a public hearing on Ordinance No. 2009-12, adopting the Council-Manager Form of Government. Since that time, a City Manager has served as chief administrator, with a mayor selected from the elected council members.

NOTE 19 – SUBSEQUENT EVENTS

On April 25, 2011 the City issued \$755,300 in Sewer Local Improvement District bonds to pay for a portion of the Winslow Way reconstruction project.

On August 26, 2011 the City issued \$5,700,000 in Limited Term General Obligation (LTGO) bonds. The proceeds were used by the Sewer Fund to repay a bond anticipation note from Cashmere Valley Bank and an interfund loan from the Water fund. These two short-term financing instruments helped the City finish its Wastewater Treatment Plant Upgrade project. Additional proceeds were used to refund the outstanding 1998 Sewer LTGO bonds.

CITY OF BAINBRIDGE ISLAND

**REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010**

BUDGETARY CHANGES

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

Department	Appropriated Budget	Amended Budget	Actuals	Difference from Amended
Legislative	\$ 103,151	\$ 103,151	\$ 98,731	\$ 4,420
Executive	2,636,449	2,554,626	2,466,032	88,594
Judicial	599,850	599,850	573,844	26,006
Finance	6,306,660	6,856,901	6,785,268	71,633
Information Technology	728,452	717,564	681,049	36,515
Police	3,546,709	3,848,590	3,723,561	125,029
Planning	4,856,391	3,560,042	2,344,103	1,215,939
Public Works	10,916,398	13,221,467	8,226,860	4,994,607
General Government	10,271,161	9,258,380	8,782,824	475,556
Total	\$ 39,965,221	\$ 40,720,571	\$ 33,682,273	\$ 7,038,298

The 2010 Budget was passed in December 2009. The original appropriated budget included \$5,289,100 in interfund transfers. The fourth quarter of 2008 was the beginning of the economic slowdown and by April of 2009, the recession was in full force for the City and the region. The recession continued into 2010 and the budget was amended in February and again in May 2010. Material operating and capital expenditure reductions were required to accommodate new lower projected revenues. Significant unspent amounts in the Planning and Public Works Departments were due to unfinished capital projects.

**LEOFF I RETIREE MEDICAL BENEFITS - SCHEDULE OF FUNDING PROGRESS
UPDATE FOR 2010**

Fiscal Year Ended	Actuarial Value of Assets	Accrued Liability - Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2010	\$ -	\$ 992,483	\$ 992,483	0%	\$ -	0%
12/31/2009	\$ -	\$ 1,050,090	\$ 1,050,090	0%	\$ -	0%
12/31/2008	\$ -	\$ 1,083,259	\$ 1,083,259	0%	\$ -	0%

CITY OF BAINBRIDGE ISLAND
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended December 31, 2010

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Revised		
REVENUES				
Property Taxes	\$6,418,137	\$6,418,137	\$6,426,313	\$8,176
Other Taxes	6,966,636	6,966,636	6,500,123	(466,513)
Fees and Fines	201,242	201,242	182,788	(18,454)
Licenses and Permits	395,285	395,285	431,538	36,253
Intergovernmental	595,443	601,767	737,251	135,484
Charges for Services	1,128,722	611,876	586,240	(25,636)
Interest	34,647	34,647	17,724	(16,923)
Other Revenues	64,584	64,584	2,072,714	2,008,130
Total REVENUES	<u>15,804,696</u>	<u>15,294,174</u>	<u>16,954,691</u>	<u>1,660,517</u>
EXPENDITURES				
General Government	3,741,356	3,481,946	3,331,451	150,494
Judicial	680,747	680,747	674,830	5,917
Public Safety	3,863,667	3,770,147	3,694,392	75,755
Physical Environment	639,857	644,933	583,076	61,857
Health and Human Services	460,244	452,763	441,751	11,012
Economic Environment	1,491,632	1,391,345	1,157,932	233,413
Culture and Recreation	525,326	868,935	727,600	141,335
Debt Service - Principal	173,094	173,094	83,130	89,964
Debt Service - Interest	48,742	48,742	47,560	1,182
Capital Outlay	13,000	362,860	479,737	(116,878)
Total EXPENDITURES	<u>11,637,665</u>	<u>11,875,512</u>	<u>11,221,460</u>	<u>654,052</u>
Operating Income (Loss)	4,167,031	3,418,662	5,733,231	2,314,569
OTHER FINANCING SOURCES/USES				
Proceeds from sale of fixed assets	750,000	1,965,970	1,247,473	(718,497)
Proceeds of general long term debt	-	173,455	136,534	(36,921)
Transfers - Out/In	(4,281,197)	(3,677,637)	(3,316,907)	360,730
Total OTHER FINANCING SOURCES/USES	<u>(3,531,197)</u>	<u>(1,538,212)</u>	<u>(1,932,900)</u>	<u>(394,688)</u>
Net Change in Fund Balance	635,834	1,880,450	3,800,331	1,919,881
Fund Balances -- Beginning	1,016,209	1,016,209	(47,696)	(1,063,905)
Prior Period Adjustments	-	-	-	-
Ending Fund Balance - Restricted	-	-	80,443	80,443
Ending Fund Balance - Unrestricted	1,652,043	2,896,659	3,672,192	775,532
Total Ending Fund Balance	<u>\$1,652,043</u>	<u>\$2,896,659</u>	<u>\$3,752,635</u>	<u>\$855,975</u>

CITY OF BAINBRIDGE ISLAND
 Budgetary Comparison Schedule
 Special Revenue Fund-Streets
 For the Year Ended December 31, 2010

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Revised		
REVENUES				
Other Taxes	\$468,068	\$468,068	\$467,214	\$(854)
Licenses and Permits	41,783	41,783	26,069	(15,714)
Intergovernmental	701,529	701,529	518,927	(182,602)
Charges for Services	-	-	887	887
Other Revenues	352,849	352,849	335,664	(17,185)
Total REVENUES	<u>1,564,229</u>	<u>1,564,229</u>	<u>1,348,761</u>	<u>(215,468)</u>
EXPENDITURES				
General Government	617,430	400,889	349,901	50,989
Public Safety	-	-	24,913	(24,913)
Physical Environment	73,888	91,322	57,940	33,382
Transportation	2,151,276	2,065,706	1,711,511	354,195
Capital Outlay	228,000	228,000	28,000	200,000
Total EXPENDITURES	<u>3,070,594</u>	<u>2,785,917</u>	<u>2,172,265</u>	<u>613,653</u>
Operating Income (Loss)	(1,506,365)	(1,221,688)	(823,504)	398,185
OTHER FINANCING SOURCES/USES				
Proceeds from sale of fixed assets	-	-	4,310	4,310
Transfers - In	1,526,100	1,206,100	890,100	(316,000)
Total OTHER FINANCING SOURCES/USES	<u>1,526,100</u>	<u>1,206,100</u>	<u>894,410</u>	<u>(311,690)</u>
Net Change in Fund Balance	19,735	(15,588)	70,906	86,495
Fund Balances -- Beginning	828	828	(70,886)	(71,714)
Prior Period Adjustments	-	-		
Ending Fund Balance - Restricted	-	-		
Ending Fund Balance - Unrestricted	20,563	(14,760)	20	14,781
Total Ending Fund Balance	<u>\$20,563</u>	<u>(\$14,760)</u>	<u>\$20</u>	<u>\$14,781</u>

CITY OF BAINBRIDGE ISLAND
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2010

Grantor/Pass Through Agency and Program Title	Federal CFDA No.	Other Identification	Current Year Expenditures
U.S. Dept. of Homeland Security, Federal Emergency Management Agency - agency direct program			
ARRA PORT SECURITY GRANT PROGRAM	97.116	2009-PU-RI-0226	\$ 177,751
U.S. Dept. of Homeland Security, Office of Justice Programs - agency direct program			
EDWARD BYRNE MEMORIAL FORMULA GRANT	16.579	2010-SB-B9-0025	4,555
U.S. Dept. of Homeland Security - pass through State Parks and Recreation Commission			
BOATING SAFETY FINANCIAL ASSISTANCE			
Safer Boating Grant - Round two grant	97.012	2009-45	15,408
Safer Boating Grant - Round three grant	97.012	LE 911-207	13,897
<u>Total U.S. Department of Homeland Security</u>			<u>211,610</u>
U.S. Dept. of Transportation - pass through State Department of Transportation			
HIGHWAY PLANNING AND CONSTRUCTION			
ARRA Manitou Beach/N. Madison Overlay Phase I	20.205	ARRA-6713(001)	1,572
North Madison Non-Motorized Improvements Phase I	20.205	STPUS-6709(001)	6,934
U.S. Dept. of Transportation - pass through Washington Association of Sheriffs and Police Chiefs			
STATE AND COMMUNITY HIGHWAY SAFETY			
Equipment Grants	20.600	BAIN100	799
U.S. Dept. of Transportation - pass through State Traffic Safety Commission			
STATE AND COMMUNITY HIGHWAY SAFETY			
Slow Down or Pay Up - Speed Enforcement	20.600	None	4,929
<u>Total U.S. Department of Transportation</u>			<u>14,234</u>
U.S. Dept. of Commerce, National Oceanic & Atmospheric Admin. - pass through State Recreation & Conservation Office			
PACIFIC COAST SALMON RECOVERY PACIFIC SALMON TREATY PROGRAM			
Strawberry Plant Shoreline Restoration Construction	11.438	08-1971 R	298,776
Pritchard Park East Bluff Shoreline Restoration	11.438	06-2294 R	95,683
<u>Total U.S. Department of Commerce</u>			<u>394,459</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 620,304</u>

CITY OF BAINBRIDGE ISLAND
Notes to the Schedules of Expenditures of Federal and State Awards
For the Year Ended December 31, 2010

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City's financial statements. The City uses Generally Accepted Accounting Principles (GAAP) as modified by the State Auditor's BARS manual and also as described in Note 1 to the City's financial statements.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only federal or state portions of program costs. Total program costs, including the City's portion, are usually more than shown.

NOTE 3 – STATE LOANS

The City has been approved by the Washington State Department of Community Development for certain State Public Works Trust Fund loans. Loan principle payments and balances outstanding at year end are shown on the City's Schedule of Long Term Debt (Schedule 09).



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

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

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

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

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

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

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

Website
Subscription Service

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