

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

City of Bainbridge Island
Kitsap County

Audit Period
January 1, 2011 through December 31, 2011

Report No. 1008424

Issue Date
September 26, 2012



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

September 26, 2012

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

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Kitsap County
January 1, 2011 through December 31, 2011**

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Federal Summary

City of Bainbridge Island Kitsap County January 1, 2011 through December 31, 2011

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

We issued an unqualified opinion on the City's compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.205	Highway Planning and Construction Cluster - ARRA - Highway Planning and Construction
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction

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 Prior Federal Audit Findings

City of Bainbridge Island Kitsap County January 1, 2011 through December 31, 2011

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the City of Bainbridge Island. The State Auditor's Office has reviewed the status as presented by the City.

Audit Period: January 1, 2010 – December 31, 2010	Report Reference No: 1006518	Finding Reference No: 1	CFDA Number(s): 11.438
Federal Program Name and Granting Agency: Pacific Coast Salmon Recovery – Pacific Salmon Treaty Program, U.S. Department of Commerce, National Oceanic and Atmospheric Administration		Pass-Through Agency Name: Recreation and Conservation Office	
Finding Caption: The City of Bainbridge Island did not have adequate internal controls to ensure compliance with requirements for its Salmon Recovery Grant.			
Background: In 2010 the City spent \$394,459 in federal money through the Salmon Recovery Funding Board program for two projects: <ul style="list-style-type: none"> • Strawberry Plant Shoreline Restoration Construction Project (\$298,776) • Pritchard Park East Bluff Shoreline Restoration Project (\$95,683) <p>Under the grant agreement, the City was responsible for following the federal and state laws and regulations. We found their internal controls were not adequate to ensure compliance with the Davis Bacon Act and Suspension and Debarment regulations.</p> <p>The City did not include the federal requirements in its contract with the contractor, they did not monitor to ensure contractors paid federal prevailing wage, nor did they obtain weekly certified payrolls. Further, the City did not perform procedures to ensure the contractor was not suspended and/or debarred.</p>			
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>The City's Public Works Department (department) now manages all public works projects. In the past this was not always the case and in this instance resulted in an internal lack of communication between departments. As noted in our finding response the department has existing procedures and controls in place to ensure compliance with federal construction program requirements.</i>			

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, 2011 through December 31, 2011**

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, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 17, 2012. During the year ended December 31, 2011, the City implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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 17, 2012

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, 2011 through December 31, 2011**

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 each of its major federal programs for the year ended December 31, 2011. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs 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.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

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.

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.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

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.



BRIAN SONNTAG, CGFM
STATE AUDITOR

September 17, 2012

Independent Auditor's Report on Financial Statements

City of Bainbridge Island Kitsap County January 1, 2011 through December 31, 2011

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, 2011, which collectively comprise the City's basic financial statements as listed on page 10. 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, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, during the year ended December 31, 2011, the City implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 19, budgetary comparison information on pages 68 through 70 and information on postemployment benefits other than pensions on page 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



BRIAN SONNTAG, CGFM
STATE AUDITOR

September 17, 2012

Financial Section

City of Bainbridge Island Kitsap County January 1, 2011 through December 31, 2011

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2011

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2011

Statement of Activities – 2011

Balance Sheet Statement– Governmental Funds – 2011

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – 2011

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2011

Statement of Net Assets – Proprietary Funds – 2011

Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds – 2011

Statement of Cash Flows – Proprietary Funds – 2011

Statement of Net Assets – Fiduciary Funds – 2011

Notes to the Financial Statements – 2011

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund – 2011

Budgetary Comparison Schedule – Special Revenue Fund–Streets – 2011

Budgetary Changes – 2011

LEOFF 1 Retiree Medical Benefits - Schedule of Funding Progress – 2011

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards – 2011

Notes to the Schedule of Expenditures of Federal Awards – 2011



CITY OF BAINBRIDGE ISLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011

This discussion and analysis of the City of Bainbridge Island financial results for the calendar and fiscal year ending December 31, 2011 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.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$132,852,554. Of this amount, \$16,393,866 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$9,200,565. This increase shows the results of prior actions taken by the City to reevaluate and revise downward revenue estimates and make corresponding budgetary expenditure reductions. After several years of substantial ongoing budget changes, the City made only minor changes to the 2011 budget during the year. In addition, the City issued bonds in 2011 which enabled the repayment of a \$3,000,000 loan between two City enterprise funds which increased the cash balance of the loaning fund.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,473,604, an increase of \$2,828,868 in comparison to the prior year.
- Total program and general revenues of the Governmental Activities, net of capital grants, decreased by \$1,156,777. 2010 totals were increased by a one-time \$2,000,000 cash settlement, which affects the year over year comparison.
- The City's total debt for general obligation bonds and intergovernmental loans increased by \$2,161,361 during the year. This increase was primarily due to bonds issued related to a sewer waste treatment plant capital project.
- The negative watch on the City's credit rating was removed by Moody's Investors Service. Moody's Investors Service also assigned an A1 rating to the City's limited tax general obligation bonds and affirmed the rating on the City's Aa3 unlimited tax general obligation bonds.

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 with regards to interfund activity, payables and receivables.

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

The **Statement of Activities and Changes in Net Assets** presents information showing how 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 a fee to customers to cover all or most of the cost of certain services it provides. The City's Water system, Wastewater system, Storm and Surface Water Management system and Building and Development Services activities are reported in this category.

FUND FINANCIAL STATEMENTS

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

Governmental Funds Financial Statements consist of a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances. These statements are prepared on a Modified-Accrual Basis of accounting. In general, these statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can be easily converted to cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a

very short period of time, but do not include capital assets such as land and buildings. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled as the fund balance. This generally indicates the amount that can be used to finance the next year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the year. The balances and activities accounted for in governmental funds are also reported in the governmental activities columns of the Government-Wide Financial Statements.

The City presents, in separate columns, funds that are most significant to the City (Major Funds). For the City of Bainbridge Island, these funds include the General Fund, the Streets Fund and the General Obligation Bond Fund. All Other Governmental Funds are reported in a single column (Non-Major Funds).

Proprietary Funds Financial Statements consist of a Statement of Net 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.

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

Notes to the Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Overall, the City’s financial position in 2011 stabilized. The City implemented a citywide reorganization in 2011, including reducing staff and services, which resulted in revenues exceeding expenditures. The City’s overall financial position and results of operations for the past two years are summarized below. This information is based on data in the Government-Wide Financial Statements:

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Cash and Cash Equivalents	\$ 8,579,044	\$ 5,555,689	\$ 7,814,822	\$ 3,157,731	\$ 16,393,866	\$ 8,713,420
Other Assets	3,543,621	2,787,660	3,916,480	4,206,606	7,460,101	6,994,266
Capital Assets	105,562,737	103,299,865	44,663,281	44,567,701	150,226,018	147,867,566
Total Assets	117,685,402	111,643,214	56,394,584	51,932,038	174,079,986	163,575,252
Other Liabilities	1,339,909	1,409,943	593,677	556,098	1,933,586	1,966,041
Long Term Debt	22,828,522	23,830,740	16,465,323	14,126,483	39,293,845	37,957,222
Total Liabilities	24,168,431	25,240,683	17,059,000	14,682,580	41,227,431	39,923,263
Invested in Capital Assets	83,674,478	80,082,643	28,561,022	30,823,139	112,235,500	110,905,782
Restricted	675,019	915,530	-	-	675,019	915,530
Unrestricted	9,167,473	5,404,357	10,774,561	6,426,319	19,942,035	11,830,676
Total Net Assets	\$ 93,516,970	\$ 86,402,531	\$ 39,335,584	\$ 37,249,458	\$132,852,554	\$123,651,989

In 2011 total net assets of the City increased \$9,200,565, or about 7.4%. Governmental Type net assets increased \$7,114,439, or 8.2%, and Business Type assets increased \$2,086,126, or 5.6%. The increases to the cash positions of the funds are primarily due to recent actions taken by the City to bring budgetary expenditures below revenue estimates.

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Program Revenues						
Charges for Services	\$ 1,485,772	\$ 1,250,917	\$ 8,924,480	\$ 8,726,639	\$ 10,410,252	\$ 9,977,556
Operating Grants/Contributions	761,903	703,581	23,259	89,446	785,162	793,027
Capital Grants/Contributions	4,327,340	712,196	296,342	91,657	4,623,682	803,853
Total Program Revenues	6,575,015	2,666,695	9,244,081	8,907,741	15,819,096	11,574,437
General Revenues						
Property Taxes	7,071,954	6,974,091	-	-	7,071,954	6,974,091
All Other Taxes	8,185,307	8,081,916	-	-	8,185,307	8,081,916
Interest	85,790	45,247	160,099	29,244	245,889	74,491
Other Revenues	982,538	2,674,290	60,934	227	1,043,472	2,674,517
Total General Revenues	16,325,590	17,775,543	221,032	29,471	16,546,622	17,805,014
Program Expenses						
General Government	4,709,261	5,031,387	-	-	4,709,261	5,031,387
Judicial	567,113	683,998	-	-	567,113	683,998
Public Safety	3,954,194	3,953,939	-	-	3,954,194	3,953,939
Physical Environment	675,182	649,607	-	-	675,182	649,607
Transportation	3,199,737	3,024,998	-	-	3,199,737	3,024,998
Health and Human Services	285,430	441,751	-	-	285,430	441,751
Economic Environment	1,048,815	1,283,476	-	-	1,048,815	1,283,476
Culture and Recreation	511,432	876,286	-	-	511,432	876,286
Water	-	-	1,549,413	1,725,866	1,549,413	1,725,866
Sewer	-	-	2,929,336	2,504,265	2,929,336	2,504,265
Storm and Surface Water Management	-	-	1,907,797	2,079,970	1,907,797	2,079,970
Building and Development Services	-	-	1,827,442	2,051,961	1,827,442	2,051,961
Total Program Expenses	14,951,166	15,945,442	8,213,988	8,362,061	23,165,154	24,307,503
Excess/Deficiency	7,949,439	4,496,796	1,251,126	575,151	9,200,565	5,071,947
Other						
Transfers	(835,000)	(1,641,000)	835,000	1,641,000	-	-
Special Items	-	-	-	(159,285)	-	(159,285)
Changes in Net Assets	7,114,439	2,855,796	2,086,126	2,056,866	9,200,565	4,912,662
Beginning Net Assets	86,402,531	83,490,305	37,249,458	35,192,592	123,651,989	118,682,898
Prior Period Adjustments	-	56,430	-	-	-	56,430
Ending Net Assets	\$ 93,516,970	\$ 86,402,531	\$ 39,335,584	\$ 37,249,458	\$ 132,852,554	\$ 123,651,989

GOVERNMENTAL ACTIVITIES

In 2011 there was an increase in net assets related to Governmental Activities of \$7,114,439, or 8.2%.

Total program revenues increased by \$3,908,320, primarily due to a \$3,615,144 increase in capital grants and contributions. The City undertook a reconstruction project of its main street, the financing for which included capital grants. The most significant revenue component of the Governmental Activities is the general tax base, representing 66.6% of the total general and program revenues in 2011. Program expenses decreased by \$994,276, or 6.2% overall in Governmental Activities, with five of the eight program categories, General Government, Judicial, Health and Human Services, and Economic Environment, and Culture and Recreation, showing a decrease in expenses in 2011 as compared to 2010.

BUSINESS-TYPE ACTIVITIES

In 2011 there was an increase in net assets related to Business-Type Activities of \$2,086,126, or 5.6%.

The City's Water Fund, Sewer Fund and the 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 \$875,620. The Building and Development Services activity recovered 51.9% of its costs with program revenues; an operating transfer from the General Fund provided additional revenue to cover program costs. Rate increases in future years could increase the percentage of costs recovered through program revenues.

ANALYSIS OF BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

The **General Fund** balance increased \$2,818,209 due to the realignment of revenue estimates, expenditure reductions and decreased operating support to the Building and Development Services Fund. As a result, the General Fund ended the year with a fund balance of \$6,570,843 as compared to \$3,752,634 for 2010.

The **Street Fund** accounted for \$2,471,668 in street and road maintenance costs compared to \$2,172,265 in 2010. Both program revenues and expenses increased in 2011. In particular, the City resumed its annual roads preservation program in 2011 and completed \$400,000 of maintenance projects. The Street Fund began 2011 with a fund balance of \$20 and ended 2011 with a fund balance of \$423.

GENERAL FUND BUDGETARY HIGHLIGHTS

The 2011 Adopted Budget passed by the City Council in November 2010 anticipated an increase in the budgetary fund balance during the year from an estimated year-end 2010 fund balance of \$494,629 to \$2,448,263 at the end of 2011. However, the 2010 year-end fund balance was \$3,752,634, including a one-time cash settlement of \$2,000,000. The actual ending 2011 fund balance was \$6,570,843, an increase of \$2,818,209 over the beginning of that year. Significant economic challenges have faced the City and continue to challenge operations and capital projects. To learn more about the City's budget process and economic challenges, see Note 1.D. and Note 16 in the Notes to the Financial Statements, Economic and Other Factors below and the Required Supplementary Information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City has invested \$150,226,018 in **CAPITAL ASSETS** (net of depreciation), an increase of \$2,358,452 or 1.6%. 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	
	2011	2010	2011	2010	2011	2010
Land	\$ 68,900,449	\$ 69,616,032	\$ 1,796,865	\$ 1,796,865	\$ 70,697,314	\$ 71,412,897
Buildings & Improvements	15,742,917	15,742,917	40,619	40,619	15,783,536	15,783,536
Intangible Assets	880,000	880,000	32,365	32,365	912,365	912,365
Vehicles and Equipment	7,638,695	7,700,954	2,267,237	2,257,515	9,905,932	9,958,469
Infrastructure	36,917,843	28,030,975	56,517,430	38,726,771	93,435,273	66,757,746
Construction in Progress	164,538	3,950,769	179,110	16,404,544	343,648	20,355,313
Accumulated Depreciation	(24,681,704)	(22,621,782)	(16,170,347)	(14,690,978)	(40,852,051)	(37,312,760)
Totals	\$105,562,737	\$103,299,865	\$ 44,663,281	\$ 44,567,701	\$150,226,018	\$147,867,566

Additional information about the City's Capital Assets is presented in Note 5 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 \$22,828,522. This was an overall decrease from the previous year of \$1,002,218. This included normal debt retirements and other changes of \$1,757,518 offset by the issuance of \$755,300 in street local improvement district (LID) bonds. Of the debt outstanding at the end of 2011, 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 Proprietary Fund revenue, after operating and maintenance expenses. The total amount of debt related to Business-Type Activities was \$16,465,323, an increase from the previous year of \$2,338,840. This included the issuance of \$5,700,000 in sewer general obligation bonds with the subsequent retirement of \$1,697,788 in bond anticipation notes and \$860,000 in sewer general obligation bonds. There were also normal debt retirements and other changes of \$803,372.

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	\$20,435,000	\$22,090,000	\$ 5,490,000	\$ 860,000	\$25,925,000	\$22,950,000
LID Bonds	755,300	-	-	-	755,300	-
Intergovernmental Loans	541,724	600,244	10,431,656	11,186,774	10,973,380	11,787,019

Land Purchase Contracts	449,000	566,000	-	-	449,000	566,000
Bond Anticipation Note	-	-	-	1,697,788	-	1,697,788
Capital Leases	170,797	136,534	-	-	170,797	136,534
Compensated Absences	475,461	508,686	363,064	381,920	838,525	890,606
Other Post-Employment Benefits	139,565	104,832	-	-	139,565	104,832
Unamortized Bond Discounts and Premiums	247,017	269,020	186,058	-	433,075	269,020
Unamortized Loss on Refunding Prior Long-Term Debt	(385,341)	(444,577)	(5,455)	-	(390,796)	(444,577)
Totals	<u>\$22,828,522</u>	<u>\$23,830,740</u>	<u>\$16,465,323</u>	<u>\$14,126,483</u>	<u>\$39,293,845</u>	<u>\$37,957,222</u>

ECONOMIC AND OTHER FACTORS

The regional economic slowdown that began in 2008 continued through 2009 and 2010. The City of Bainbridge Island has responded to the current economic environment by conservatively estimating revenues, and adopting cost containment measures to reduce expenditures.

The 2011 budget was adopted in November 2010, including further staff reductions and cuts to programs and services commensurate with the reductions in revenue estimates. Certain supervisory employees had a work furlough program of 10 days in 2011. The 2011 furlough of supervisory employees followed a furlough program for all non-sworn employees in 2009 and 2010. The 2011 adopted budget included a restructuring of the City's workforce and responsibilities as the City moved to reduce the budget to provide programs and services within its reduced means.

General Fund revenues for 2011 were \$137,622, or 0.88%, above the Adopted Budget number, including \$170,000 in budgeted but unrealized revenue from surplus property sales. Street Fund revenues were \$322,364, or 11.5%, under the adopted budget, with a primary factor being the lower than budgeted operating transfer revenue. Real Estate Excise Tax Fund Revenues were very close to the budgeted numbers, at \$6,376 or 0.58%, over the Adopted budget.

During 2011, the City took legislative action to separate the three utilities that made up the City's consolidated Waterworks Utility. This action did not change the accounting or budgeting for these utilities, as the Water, Sewer, and Surface and Stormwater Management Funds have been used to separately track revenues and expenses of the utilities. The Water Fund revenues were \$61,999 or 1.1% over budget, including repayment of a \$3,000,000 interfund loan and associated interest. The City expects lower revenues in the Water Fund in future years due to rate reductions which total a 45% as compared to 2011 beginning rates. The Sewer Fund revenues were \$1,816,410 or 15.5% below budget due to lower than budgeted amounts for the bond issue. The SSWM revenues were \$75,308 or 3.0% less than budget due to budgeted but unreceived revenue from a reimbursable grant. Building and Development Services revenues were \$89,001 or 9.0% less than the Adopted Budget, including \$331,996 less than budgeted in operating transfers from the General Fund.

The City's Capital Improvement Plan has also been affected by the recession. Capital spending has been curtailed as revenues decreased. However, in 2011 after several years of planning, the City undertook a large capital project to replace utilities and reconstruct the street running through the central business district. This project drew funding from several sources, including utility revenues for the utility portion of the project, federal and state grants, and local sources. The project was largely completed in 2011 with some work continuing into 2012.

The current economic environment is challenging for the City's residents and businesses, and for the City of Bainbridge Island government and its employees. The economic recession affects the regional economy. While the economy showed signs of stabilization in 2011, the City does not expect to receive pre-recession level revenues for several years. The City of Bainbridge Island has made difficult choices that brought recurring expenses to levels below recurring revenues, and has begun to establish prudent financial reserves. These efforts will continue into future years.

CITY OF BAINBRIDGE ISLAND
Statement of Net Assets
As of December 31, 2011

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 8,579,044	\$ 7,814,822	\$ 16,393,866
Receivables - Net	1,932,360	592,197	2,524,557
Due from Other Governments	379,615	18,717	398,332
Inventories	127,708	73,489	201,197
Prepays	104,754	-	104,754
Deferred Charges	331,254	104,543	435,796
Special Assessments - Deferred	667,930	3,127,535	3,795,465
Capital Assets - Net of Accumulated Depreciation	35,617,751	42,687,305	78,305,056
Land	68,900,449	1,796,865	70,697,314
Construction in Progress	164,538	179,110	343,648
Other Capital Assets	880,000	-	880,000
Total Assets	117,685,402	56,394,584	174,079,985
LIABILITIES			
Accounts Payable	751,234	216,564	967,797
Accrued Expenses	488,675	223,544	712,219
Deferred Revenue	100,000	153,570	253,570
Compensated Absences	475,461	363,064	838,525
Due Within One Year	2,123,992	1,184,922	3,308,914
Due in More Than One Year	20,229,069	14,917,337	35,146,406
Total Liabilities	24,168,431	17,059,000	41,227,431
NET ASSETS			
Invested in Capital Assets - Net of Related Debt	83,674,478	28,561,022	112,235,500
Restricted For:			
Police Special Operations	40,474	-	40,474
Real Estate Excise Tax	67	-	67
Civic Improvement	172,809	-	172,809
LID Collections	111,093	-	111,093
Construction - Bond Proceeds	325,237	-	325,237
LID Bond Proceeds	25,339	-	25,339
Unrestricted	9,167,473	10,774,561	19,942,034
Total Net Assets	\$ 93,516,970	\$ 39,335,583	\$ 132,852,554

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

CITY OF BAINBRIDGE ISLAND
Statement of Activities
For the Year Ended December 31, 2011

	Program Revenues				Net Expense/Revenue and Changes in Net Assets		
	Charges for Services		Operating Grants and Contributions		Primary Government		
	Expenses	Services	Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 3,679,540	\$ 993,473	\$ 500	\$ -	\$ (2,685,567)	\$ -	\$ (2,685,567)
Judicial	567,113	199,518	-	-	(367,595)	-	(367,595)
Public Safety	3,954,194	118,491	103,203	-	(3,732,500)	-	(3,732,500)
Physical Environment	675,182	1,664	153,893	31,499	(488,127)	-	(488,127)
Transportation	3,199,737	18,430	486,012	4,271,433	1,576,138	-	1,576,138
Health and Human Services	285,430	-	-	-	(285,430)	-	(285,430)
Economic Environment	1,048,815	97,491	-	-	(951,324)	-	(951,324)
Culture and Recreation	511,432	56,705	18,295	24,409	(412,024)	-	(412,024)
Interest on Long Term Debt	1,029,721	-	-	-	(1,029,721)	-	(1,029,721)
Total Government Activities	14,951,166	1,485,772	761,903	4,327,340	(8,376,151)	-	(8,376,151)
Business-Type Activities:							
Water	1,549,413	2,277,346	-	114,343	-	842,276	842,276
Sewer	2,929,336	3,351,441	-	181,999	-	604,104	604,104
Storm and Surface Water Management	1,907,797	2,348,040	23,259	-	-	463,502	463,502
Building and Development Services	1,827,442	947,653	-	-	-	(879,788)	(879,788)
Total Business-Type Activities	8,213,988	8,924,480	23,259	296,342	-	1,030,093	1,030,093
Total Primary Government	\$ 23,165,154	\$ 10,410,252	\$ 785,162	\$ 4,623,682	\$ (8,376,151)	\$ 1,030,093	\$ (7,346,058)
General Revenues:							
Property Taxes Levied for General Purposes					\$ 6,532,698	\$ -	\$ 6,532,698
Property Taxes Levied for Other Purposes					539,256	-	539,256
Sales and Use Taxes					2,852,146	-	2,852,146
Business and Occupation Taxes					4,215,771	-	4,215,771
Excise Taxes					1,117,390	-	1,117,390
Penalties and Interest					49,529	125,621	175,150
Unrestricted Investment Earnings					36,261	34,478	70,739
Grants and Contributions not Restricted to Specific Programs					274,144	-	274,144
Miscellaneous Transfers					708,394	60,934	769,328
					(835,000)	835,000	-
Total General Revenues, Extraordinary, Special Items, and Transfers					15,490,590	1,056,032	16,546,623
Change in Net Assets					7,114,439	2,086,126	9,200,565
Net Assets - Beginning					86,402,531	37,249,458	123,651,989
Net Assets - Ending					\$ 93,516,970	\$ 39,335,584	\$ 132,852,554

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

CITY OF BAINBRIDGE ISLAND
Balance Sheet Statement
Governmental Funds
As of December 31, 2011

	General	Streets	GO Bonds	Capital Construction	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 7,144,525	\$ 78,097	\$ 446	931,604	\$ 424,373	\$ 8,579,044
Receivables - Net	4,670	647	-	-	114,410	119,727
Unmatured Assessments	-	-	-	-	667,930	667,930
Total Assets	\$ 7,149,194	\$ 78,744	\$ 446	\$ 931,604	\$ 1,206,712	\$ 9,366,700
LIABILITIES						
Accounts Payable	\$ 266,079	\$ 31,323	\$ -	436,322	\$ 17,510	\$ 751,234
Accrued Expenses	307,602	46,350	-	254	-	354,206
Deferred Revenue	4,670	647	-	-	782,339	787,656
Total Liabilities	\$ 578,351	\$ 78,321	\$ -	\$ 436,576	\$ 799,849	\$ 1,893,096
FUND BALANCES						
Restricted	40,474	-	-	325,237	309,308	675,019
Committed	216,607	-	-	-	97,555	314,162
Assigned	2,003,259	423	446	169,791	-	2,173,919
Unassigned	4,310,504	-	-	-	-	4,310,504
Total Fund Balances	\$ 6,570,843	\$ 423	\$ 446	\$ 495,028	\$ 406,863	\$ 7,473,604
Total Liabilities and Fund Balances	\$ 7,149,194	\$ 78,744	\$ 446	\$ 931,604	\$ 1,206,712	\$ 9,366,700

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds; net of accumulated depreciation	\$ 105,562,737
Inventory purchases used in governmental activities, including prepayments, are not financial resources and therefore are not reported in the funds	232,463

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

Unamortized Debt Issuance Costs	331,254
Accounts Receivable - Earned but Unavailable	2,192,248
Deferred Revenue	687,656
Accrued expenses and compensated absences are not due and payable in the current period and therefore are not reported in the funds	(609,930)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(22,353,061)
Net Assets of Major Governmental Activities	\$ 93,516,970

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, 2011

	General	Streets	GO Bond	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes	\$ 6,550,421	\$ -	\$ 539,256	-	\$ -	\$ 7,089,677
Other Taxes	6,372,640	552,436	-	-	1,218,275	8,143,351
Fees and Fines	191,636	-	-	-	-	191,636
Licenses and Permits	542,110	18,195	-	-	-	560,306
Intergovernmental	571,986	484,706	-	3,407,990	-	4,464,683
Charges for Services	568,315	295	-	56	97,109	665,775
Interest and Investment Revenue	34,954	-	-	-	1,307	36,261
Other Revenues	125,832	367,128	-	47,909	287,256	828,124
Total Revenues	14,957,895	1,422,760	539,256	3,455,955	1,603,947	21,979,813
EXPENDITURES						
Current						
General Government	3,030,686	337,918	-	-	-	3,368,603
Judicial	569,333	-	-	-	-	569,333
Public Safety	3,800,938	4,723	-	-	-	3,805,661
Physical Environment	752,236	20,044	-	-	-	772,280
Transportation	-	1,707,826	-	-	500	1,708,326
Health and Human Services	285,430	-	-	-	-	285,430
Economic Environment	951,134	-	-	-	100,776	1,051,910
Culture and Recreation	241,477	-	-	-	-	241,477
Debt Service - Principal	162,097	-	1,713,520	-	-	1,875,617
Debt Service - Interest	49,544	-	913,023	-	20,200	982,766
Capital Outlay	327,827	401,158	-	3,677,985	810,698	5,217,669
Total Expenditures	10,170,701	2,471,668	2,626,543	3,677,985	932,174	19,879,071
Excess/(deficiency) of Revenue over Expenditures	4,787,194	(1,048,908)	(2,087,286)	(222,030)	671,772	2,100,742
OTHER FINANCING SOURCES/(USES)						
Disposition of Capital Assets	705,156	23,311	-	-	-	728,466
Capital Lease & LID Proceeds	79,360	-	-	-	755,300	834,660
Transfers In	-	1,026,000	2,087,500	50,000	-	3,163,500
Transfers Out	(2,753,500)	-	-	-	(1,245,000)	(3,998,500)
Total Other Financing Sources/Uses	(1,968,985)	1,049,311	2,087,500	50,000	(489,700)	728,126
Net Change in Fund Balance	2,818,209	403	214	(172,030)	182,072	2,828,868
Fund Balances - Beginning	3,752,634	20	232	667,058	224,791	4,644,736
Fund Balances - Ending	\$ 6,570,843	\$ 423	\$ 446	\$ 495,028	\$ 406,863	\$ 7,473,604

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, 2011

Net change in fund balances - Total governmental funds \$ 2,828,868

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	\$	5,217,669	
Less Current year depreciation		(2,239,213)	
			2,978,456

Revenue in the Statement of Activities that does not provide current financial resources is reported as revenues in the funds. 192,325

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		(834,660)	
Repayment of Long-Term Debt		1,875,617	
			1,040,958

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. 73,833

Change in Net Assets of Governmental Activities		\$		7,114,439
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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, 2011

	Business-Type Activities - Enterprise Funds					Total
	Water	Sewer	Storm and Surface Water Management	Building and Development Services		
ASSETS						
Current Assets						
Cash and Cash Equivalents	\$ 5,099,268	\$ 1,097,616	\$ 1,305,143	\$ 312,796	\$ 7,814,822	
Receivables - Net	53,624	379,033	158,672	868	592,197	
Due From Other Governments	-	-	18,717	-	18,717	
Inventories	56,008	2,788	14,693	-	73,489	
Non-Current Assets						
Deferred Charges	-	104,543	-	-	104,543	
Special Assessments	-	3,127,535	-	-	3,127,535	
Capital Assets - Net of Accumulated Depreciation	12,237,288	21,617,847	8,829,960	2,210	42,687,306	
Land	637,436	834,874	324,555	-	1,796,865	
Construction in Progress	32,375	145,259	1,476	-	179,110	
Total Assets	18,115,999	27,309,496	10,653,216	315,873	56,394,584	
LIABILITIES						
Current Liabilities						
Accounts Payable	50,215	44,650	117,793	3,905	216,564	
Accrued Expenses	26,720	83,074	40,492	73,258	223,544	
Deferred Revenue	-	-	-	153,570	153,570	
Compensated Absences	153,576	77,795	48,837	82,856	363,064	
Current Portion of Long-Term Debt	-	1,134,219	50,703	-	1,184,922	
Non-Current Liabilities						
Bonds, Loans, and Other Debt	-	14,267,744	649,593	-	14,917,337	
Total Liabilities	230,510	15,607,482	907,419	313,589	17,059,000	
NET ASSETS						
Invested in Capital Assets - Net of Related Debt	12,907,100	7,196,018	8,455,695	2,210	28,561,022	
Net Assets - Unrestricted	4,978,390	4,505,996	1,290,102	74	10,774,561	
Total Net Assets	\$ 17,885,489	\$ 11,702,014	\$ 9,745,797	\$ 2,283	\$ 39,335,584	

CITY OF BAINBRIDGE ISLAND
 Statement of Revenues, Expenses, and Changes in Fund Net Assets
 Proprietary Funds
 For the year ended December 31, 2011

	Water	Sewer	Storm and Surface Water Management	Building & Development Services	Totals
OPERATING REVENUES					
Charges for Services	\$ 2,277,346	\$ 3,351,441	\$ 2,348,040	\$ 947,653	\$ 8,924,480
Total Operating Revenues	2,277,346	3,351,441	2,348,040	947,653	8,924,480
OPERATING EXPENSES					
Personal Services	558,745	802,268	919,959	1,446,721	3,727,693
Contractual Services	201,417	120,429	284,035	233,400	839,281
Utilities	103,911	204,206	102,225	1,349	411,692
Repairs and Maintenance	28,481	74,515	52,526	9,421	164,943
Miscellaneous Expense	8,384	9,163	13,986	5,958	37,491
Other Supplies and Expenses	305,733	508,044	280,736	24,697	1,119,210
Insurance Claims and Expenses	31,950	48,483	43,725	100,991	225,148
Depreciation	310,791	960,822	207,019	737	1,479,368
Total Operating Expenses	1,549,413	2,727,930	1,904,211	1,823,273	8,004,827
Operating Income (Loss)	727,933	623,511	443,829	(875,620)	919,654
NON-OPERATING REVENUES (EXPENSES)					
Interest and Investment Revenue	23,348	5,141	5,988	-	34,478
Miscellaneous Revenue	44,168	140,693	23,259	1,693	209,814
Interest Expense	-	(201,406)	(3,587)	-	(204,993)
Settlement Expense	-	-	-	(4,169)	(4,169)
Total Non-Operating Revenues (Expenses)	67,517	(55,572)	25,660	(2,475)	35,130
Net income(loss) before contributions and transfers	795,450	567,939	469,490	(878,095)	954,784
Capital Contributions	114,343	181,999	-	-	296,342
Transfers In	-	-	-	835,000	835,000
Change in Net Assets	909,793	749,938	469,490	(43,095)	2,086,126
Net Assets - Beginning	16,975,697	10,952,075	9,276,308	45,378	37,249,458
Total Net Assets - Ending	\$ 17,885,489	\$ 11,702,014	\$ 9,745,797	\$ 2,283	\$ 39,335,584

CITY OF BAINBRIDGE ISLAND
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	Business-Type Activities				
	Water	Sewer	Storm and Surface Water Management	Building and Development Services	Total
Cash Flows from Operating Activities					
Receipts from Customers	\$ 2,365,828	\$ 3,701,085	\$ 2,374,724	\$ 947,788	\$ 9,389,426
Payments to Suppliers	(643,640)	(1,013,981)	(716,962)	(388,524)	(2,763,107)
Payments to Employees	(565,204)	(868,906)	(940,422)	(1,456,948)	(3,831,481)
Net Cash Provided (Used) by Operating Activities	1,156,983	1,818,198	717,340	(897,684)	2,794,838
Cash Flows from Non-Capital Financing Activities					
Operating Subsidies and Transfers from Other Funds	-	-	-	835,000	835,000
Non Capital Grant Proceeds	-	-	23,259	-	23,259
Net Cash Provided (Used) by Non-Capital Financing Activities	-	-	23,259	835,000	858,259
Cash Flows from Capital and Related Financing Activities					
Capital Contributions	114,343	181,999	-	-	296,342
Purchases of Capital Assets	(995,649)	(340,487)	(238,813)	-	(1,574,948)
Proceeds from Issuing Long-Term Debt	-	5,785,806	-	-	5,785,806
Principal Paid on Capital Debt	-	(3,472,204)	(50,703)	-	(3,522,907)
Interfund Loans Repaid	-	(3,000,000)	-	-	(3,000,000)
Interest Paid on Capital Debt	-	(203,878)	(3,587)	-	(207,465)
Other Receipts and/or Payments	17,711	140,693	-	7,828	166,232
Net Cash Provided (Used) by Capital and Related Financing Activities	(863,595)	(908,071)	(293,102)	7,828	(2,056,940)
Cash Flows from Investing Activities					
Interest and Dividends	49,805	5,141	5,988	-	60,934
Interfund Loans Repaid	3,000,000	-	-	-	3,000,000
Net Cash Provided (Used) by Investing Activities	3,049,805	5,141	5,988	-	3,060,934
Net Increase/(Decrease) in Cash and Cash Equivalents	3,343,194	915,268	453,485	(54,856)	4,657,091
Balances - Beginning of the Year	1,756,074	182,348	851,658	367,652	3,157,732
Balances - End of the Year	<u>\$5,099,268</u>	<u>\$1,097,616</u>	<u>\$1,305,143</u>	<u>\$312,796</u>	<u>\$7,814,823</u>

CITY OF BAINBRIDGE ISLAND
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

Reconciliation of Operating Income (Loss) to Net Cash					
Provided (Used) by Operating Activities					
Operating Income/(Loss)	\$ 727,933	\$ 623,511	\$ 443,829	\$ (875,620)	\$ 919,654
Adjustments to Reconcile Operating Income to Net Cash					
Provided (Used) by Operating Activities					
Depreciation	310,791	960,822	207,019	737	1,479,368
Change in Assets and Liabilities:					
Receivables - Net	88,482	349,644	26,684	135	464,945
Inventories	(5,593)	93	(4,241)	-	(9,741)
Accounts Payable	41,829	(49,233)	64,512	(12,709)	44,399
Accrued Expenses	(3,352)	(61,672)	(16,005)	(3,903)	(84,932)
Compensated Absences	(3,107)	(4,967)	(4,458)	(6,324)	(18,856)
Net Cash Provided by Operating Activities	<u>\$ 1,156,983</u>	<u>\$ 1,818,198</u>	<u>\$ 717,340</u>	<u>\$ (897,684)</u>	<u>\$ 2,794,838</u>

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, 2011

ASSETS	Agency Funds
Cash and Cash Equivalents	<u>\$ 309,844</u>
Total Assets	<u><u>\$ 309,844</u></u>
LIABILITIES	
Custodial Accounts Payable	<u>\$ 309,844</u>
Total Liabilities	<u><u>\$ 309,844</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, 2011

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 City 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. 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. Other local governments provide public education, fire suppression, library and most park services.

B. Government-Wide and Fund Financial Statements

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

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

General Fund

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

Street Fund

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

General Obligation Bond Fund

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

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

Water Fund

The water fund accounts for all activities related to providing water services to City water customers, primarily located in the historic Winslow area.

Sewer Fund

The sewer fund accounts for all activities related to providing wastewater (sewer) services to City sewer customers, primarily located in the historic Winslow area.

Storm & Surface Water Management Fund

The storm & surface water management fund accounts for all activities related to providing storm drainage and related services to the island-wide community.

Building & Development Services Fund

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

The City maintains one **Fiduciary Fund**:

This fund is an agency fund, is custodial in nature (assets always equal liabilities) and does not involve the measurement of results of operations. Within this fund are a number of sub-funds representing monies on which the City has either no claim or has a junior claim to some other third party. Included are construction retainage accounts, performance bonds, school impact fees awaiting refund to property owners 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 GASB. 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 the 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 various funds to the water, sewer and storm and surface water management funds.

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 proprietary funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Budgetary Information

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.

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

2. Procedures for Adopting the Original Biennial Budget

The City's budget procedures consistent with RCW¹ 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, increase any fund's total expenditures, increase any capital construction project's total expenditures, or affect the number of authorized employee positions, salary ranges or hours must be approved by the City Council. When the City Council determines that it is in the best interest of the City to make any of the stated revisions, it must do so by ordinance approved by a simple majority.

4. Deficit Fund Equity

As of December 31, 2011 there were no funds with deficit fund equity.

¹ "RCW" refers to the Revised Code of Washington as published by the Statute Law Committee.

E. Assets, Liabilities and Equities

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

1. Cash and Cash Equivalents

For purposes of the financial statements, including the statement of cash flows, the city considers cash and cash equivalents to include cash on hand, demand deposits, and all short-term investments with original maturities of three months or less from date of acquisition. At December 31, 2011 the City was holding \$16,703,710 in cash and cash equivalents (including \$309,844 in fiduciary funds).

It is the City's policy to invest all temporary cash surpluses. At December 31, 2011 the City was holding \$15,112,047 (including \$248,177 in Fiduciary Funds) in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents. Interest on these investments is distributed to various funds proportional to their cash balances.

At December 31, 2011 the City was not holding any customer deposits nor did it maintain compensating balances with any banking institutions.

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, 2011 and 2010 the City had taxes receivable of \$1,452,442 and \$1,417,238 respectively.

Special assessments are recorded when levied, in the local improvement district (LID) debt service fund for regular LIDs and in the enterprise funds for utility LIDs. Deferred assessments in the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2011 and 2010 the City had \$434 and \$869, respectively, in delinquent special assessments receivable.

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 2011 is \$1,481,929 (\$1,224,073 considered uncollectible) compared to \$1,381,070 (\$1,131,096 considered uncollectible) for 2010.

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 2011 there were no interfund loans outstanding. The City also has reimbursement grants and other receivables from the State and Federal governments. Those amounts totaled \$398,332 and \$331,938 for fiscal years 2011 and 2010, respectively. At year-end 2011 the City had no interfund loans receivable and payable outstanding.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources

4. Inventories

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

5. Capital Assets

Capital assets are reported in the government-wide financial statements. They include property, plant, equipment and infrastructure assets (e.g. roads, sidewalks, and similar items). Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. These assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest actually incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

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

For further detail see Note No. 5 – 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. All compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements.

Vacation pay may be accumulated up to a maximum of 320 hours in 2011 and is payable upon termination, resignation, retirement or death. Compensating time off may be accumulated up to a maximum of 160 hours (120 for law enforcement officers) and may be taken at any time or paid out at the employee's request. Standby time represents compensating time off for employees who are required to be available on standby during non-working hours and may be taken at any time or paid out at the employee's request. Floating holidays represent 1) holidays worked and subsequently accrued by law enforcement officers that may be taken at any time or paid out at the officer's request and 2) one floating holiday per non-law enforcement employee per year. Non-law enforcement employees can carry their floating holidays into the next year but they must be used before any other compensated leave 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 1,040 hours. Except as noted below for law enforcement officers, upon separation from City employment outstanding sick leave is not paid to the employee. Accumulations of over 1,040 hours are paid down annually at 1/2 the employee's current rate of pay. In addition, law enforcement officers, upon retirement, are paid 1/4 of their sick leave balance at their then current rate of pay. Because there is no commitment to pay out accrued but unpaid management leave, wellness time or sick leave, and because law enforcement retirement dates are not generally known in advance, they are not shown as liabilities.

Total liability for compensated absences as of December 31, 2011 and 2010 is as follows:

	2011	2010
Vacation	\$677,973	\$695,888
Compensating Time	67,124	91,244
Standby Time	25,517	25,102
Floating Holidays	67,911	78,372
Total	\$838,525	\$890,606

7. Other Current Liabilities

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

8. Long-Term Debt

See Note No. 9 – Long-Term Debt.

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 Balance

During 2011 the City implemented GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions. This changes how the governmental funds balances are displayed on the financial statements.

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

Nonspendable fund balance represents amounts that cannot be spent because they are either not in a spendable form (such as long-term receivables or inventory) or legally required to remain intact (such as the principal of a permanent fund). At the year-ended December 31, 2011 the City did not have any nonspendable fund balances.

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

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

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

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

Fund balance constraints as listed in aggregate on the governmental funds balance sheet statement at December 31, 2011 were as follows:

	General Fund	Street Fund	GO Bond Fund	Capital Construction Fund	Other Governmental Funds	Total Governmental Funds
Restricted:						
Police Investigations	\$ 30,474	\$ -	\$ -	\$ -	\$ -	\$ 30,474
Police Marine	10,000	-	-	-	-	10,000
Real Estate Excise Tax	-	-	-	-	67	67
Hotel/Motel Tax	-	-	-	-	172,809	172,809
LID Collections	-	-	-	-	111,093	111,093
LTGO Bond Proceeds	-	-	-	325,237	-	325,237
LID Bond Proceeds	-	-	-	-	25,339	25,339
Total Restricted	\$ 40,474	\$ -	\$ -	\$ 325,237	\$ 309,308	\$ 675,019
Committed:						
Public Art	\$ 155,111	\$ -	\$ -	\$ -	\$ -	\$ 155,111
Affordable Housing	61,495	-	-	-	-	61,495
Floor Area Ratio - Public Amenities	-	-	-	-	39,022	39,022
Floor Area Ratio - Agriculture	-	-	-	-	58,533	58,533
Total Committed	\$ 216,607	\$ -	\$ -	\$ -	\$ 97,555	\$ 314,162
Assigned:						
Capital Impr. Opportunity Reserve	\$ 2,003,259	\$ -	\$ -	\$ -	\$ -	\$ 2,003,259
Street Fund	-	423	-	-	-	423
GO Bond Fund	-	-	446	-	-	446
Construction Fund	-	-	-	169,791	-	169,791
Total Assigned	\$ 2,003,259	\$ 423	\$ 446	\$ 169,791	\$ -	\$ 2,173,919
Unassigned:						
General Fund	4,310,504	\$ -	\$ -	\$ -	\$ -	\$ 4,310,504
Total Unassigned	\$ 4,310,504	\$ -	\$ -	\$ -	\$ -	\$ 4,310,504
Total Fund Balance	\$ 6,570,843	\$ 423	\$ 446	\$ 495,028	\$ 406,863	\$ 7,473,604

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

The emergency reserve is built up through the sale of surplus property and has a balance of \$409,398 at December 31, 2011. The reserve was set up to provide for unexpected emergencies

that cannot be reasonably accommodated in the current budget or by the contingency reserve (see below). Items specifically allowed for expenditure of emergency reserve funds are as follows:

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

The contingency reserve is built up through annual budget appropriations and has a balance of \$398,600 at December 31, 2011. This reserve was set up to provide for unexpected needs not included in the annual budget and minor shortfalls in budgeted appropriations. The funds may not be used for items that can be reasonably deferred to the following year. It may also not be used for items considered but not funded in the current budget unless conditions or circumstances have substantially changed. No single appropriation can exceed 20% of the original contingency reserve balance at the beginning of the year.

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

In addition to the two general fund stabilization arrangements set up as the emergency and contingency reserves, the City Council adopted a minimum fund balance policy, through resolution, for the general fund. This was defined as the excess of current assets over current liabilities that are unreserved, undesignated and unrestricted. For December 31, 2011 and 2012 the City Council's specified goals were \$1,500,000 and \$3,000,000, respectively. The actual amount of unassigned general fund balance at December 31, 2011 was \$4,310,504, and excluding the emergency and contingency reserves, was \$3,502,506.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

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

B. Investments

Washington State law limits the types of investments into which the City may place funds. Allowable investments include U.S. government obligations, state and local government obligations, bankers' acceptances and deposits in Washington State financial institutions. All funds are invested in the Washington State Treasurer's Investment Pool, the Kitsap County Treasurer's Investment Pool or Sterling Bank's Government Investment Pool. These funds are marked to market monthly by those

entities. All of these pools are non-rated. On the City's balance sheet, these pool investments are considered cash equivalents. As a matter of policy, the City does not use reverse repurchase agreements (because of the difficulty in perfecting collateral) and does not invest in derivatives (because of the difficulty in assessing risk). The City has no investments subject to risk categorization. At December 31, 2011 the City held the following investments not subject to categorization:

Investment in State Treasurer's Investment Pool *	\$ 1,794,360
Investment in Kitsap County Treasurer's Investment Pool *	11,314,428
Investment in Sterling Bank Governmental Investment Pool *	2,003,259
Total Investments *	\$ 15,112,047

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

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

NOTE 4 – 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:

- I. 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 2011, 2010 and 2009:

Year	KRLD/BIFD Levy Rate	City Maximum Allowable Levy Rate	City Actual Levy Rate
2011	\$1.2503	\$2.3497	\$1.1599
2010	\$1.1249	\$2.4751	\$1.0335
2009	\$1.0166	\$2.5834	\$0.9364

The City's regular levy for 2011 at \$1.1599 per \$1,000 assessed valuation on an assessed valuation of \$5.642 billion produced a total levy of \$6.545 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 \$0.0959 in 2011 and \$0.0863 in 2010.

NOTE 5 – CAPITAL ASSETS

A. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2011 was as follows:

Governmental Activities	Beginning Balance 01/01/2011	Increases	Decreases	Ending Balance 12/31/2011
Capital Assets not depreciated:				
Land	\$ 69,616,032	\$ -	\$ (715,584)	\$ 68,900,449
Construction In Progress	3,950,769	-	(3,786,231)	164,538
Development Rights (Intangible)	880,000	-	-	880,000
Total Capital Assets not depreciated	\$ 74,446,801	\$ -	\$ (4,501,814)	\$ 69,944,987
Capital Assets, Depreciable:				
Buildings	\$ 15,742,917	\$ -	\$ -	\$ 15,742,917
Machinery and Equipment	7,700,954	176,917	(239,176)	7,638,695
Infrastructure	28,030,975	8,886,868	-	36,917,843
Total Capital Assets, depreciable	\$ 51,474,846	\$ 9,063,785	\$ (239,176)	\$ 60,299,455
Less Accumulated Depreciation for:				
Buildings	\$ (4,360,216)	\$ (404,287)	\$ -	(4,764,503)
Machinery and Equipment	(6,207,435)	(305,525)	179,290	(6,333,669)
Infrastructure	(12,054,131)	(1,529,401)	-	(13,583,532)
Total Accumulated Depreciation	\$ (22,621,782)	\$ (2,239,213)	\$ 179,290	\$ (24,681,704)
Total Capital Assets, depreciable, net	\$ 28,853,064	\$ 6,824,572	\$ (59,886)	\$ 35,617,751
Total Governmental Activities Capital Assets, net	\$ 103,299,865	\$ 6,824,572	\$ (4,561,700)	\$ 105,562,737

Business-Type Activities	Beginning Balance 01/01/2011	Increases	Decreases	Ending Balance 12/31/2011
Capital Assets not depreciated:				
Land	\$ 1,796,865	\$ -	\$ -	\$ 1,796,865
Construction In Progress	16,404,544	1,574,948	(17,800,382)	179,110
Total Capital Assets not depreciated	\$ 18,201,409	\$ 1,574,948	\$ (17,800,382)	\$ 1,975,975
Capital Assets, depreciable:				
Buildings	\$ 40,619	\$ -	\$ -	\$ 40,619
Computer Software	32,365	-	-	32,365
Machinery and Equipment	2,257,515	9,723	-	2,267,237
Infrastructure	38,726,771	17,790,659	-	56,517,430
Total Capital Assets, depreciable	\$ 41,057,270	\$ 17,800,382	\$ -	\$ 58,857,652
Less accumulated depreciation for:				
Buildings	\$ (8,490)	\$ (917)	\$ -	\$ (9,407)
Computer Software	(32,365)	-	-	(32,365)
Machinery and Equipment	(1,903,958)	(99,822)	-	(2,003,780)
Infrastructure	(12,746,164)	(1,378,630)	-	(14,124,794)
Total Accumulated Depreciation	\$ (14,690,977)	\$ (1,479,368)	\$ -	\$ (16,170,345)
Total Capital Assets, depreciable, net	\$ 26,366,293	\$ 16,321,013	\$ -	\$ 42,687,307
Total Business-Type Activities Capital Assets, net	\$ 44,567,702	\$ 17,895,962	\$ (17,800,382)	\$ 44,663,282

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

Governmental Activities	2011	2010
General Government	\$ 319,624	\$ 343,639
Judicial	-	5,070
Public Safety	126,226	166,695
Physical Environment	4,324	5,968
Transportation	1,544,667	1,315,130
Economic Environment	-	-
Culture and Recreation	244,373	121,380
Total Depreciation – Governmental Activities	\$ 2,239,213	\$ 1,957,881

Business-Type Activities	2011	2010
Water Utility	\$ 310,791	\$ 294,427
Sewer Utility	960,822	348,083
Storm and Surface Water Management Utility	207,019	195,130
Building and Development Services	737	737
Total Depreciation – Business-Type Activities	\$ 1,479,368	\$ 838,377

B. CONSTRUCTION COMMITMENTS

The City had only one major capital construction project in progress at December 31, 2011 and because the Winslow Way Reconstruction project was nearly complete there were no significant outstanding construction commitments at year-end.

NOTE 6 – 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 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

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

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

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

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

PERS Plan 1 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, 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) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 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 was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 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.

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 contributions and the results of investment activities.

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

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

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

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

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

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

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

Judicial Benefit Multiplier

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

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

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

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

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Nonvested	51,005
Total	262,285

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. 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 Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

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

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

Members not participating in JBM:

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

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

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

*** Plan 3 defined benefit portion only.

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

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

Members participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	9.75%	9.75%	9.75%**
Employer-Local Government*	7.25%	7.25%	7.25%**
Employee-State Agency	9.76%	9.10%	7.50%***
Employee-Local Government	12.26%	11.60%	7.50%***

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

** Plan 3 defined benefit portion only.

***Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2011	\$ 6,049	\$ 312,447	\$ 85,994
2010	\$ 8,427	\$ 291,023	\$ 71,465
2009	\$18,563	\$ 400,397	\$ 87,601

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

Plan Description

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

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

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

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

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

Retirees and Beneficiaries Receiving Benefits	9,647
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	782
Active Plan Members Vested	13,420
Active Plan Members Nonvested	3,656
Total	27,505

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. 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 payrolls, as of December 31, 2011 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
2011	\$0	\$97,799
2010	\$0	\$96,270
2009	\$0	\$96,999

NOTE 7 – RISK MANAGEMENT

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a current total of 150 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.

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, 2011 seven payments were made that were not fully covered by insurance. \$1,553 was paid to settle a boundary line dispute and a dock construction. \$2,616 was paid to settle a wetland buffer restriction and limited access dispute. \$77,210 was paid to settle a dispute over reduced hours for the City's Municipal Court Judge. \$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. 10 – Claims, Contingencies, Litigation and Other Liabilities). \$495,000 was paid in August of 2009 for settlement of a case involving building fees.

NOTE 8 – SHORT TERM DEBT

Short-term debt activities for the year ended December 31, 2011 were as follows:

Debt	Beginning Balance 1/1/2011	Issued	Redeemed 8/24/2011	Ending Balance 12/31/2011
Cashmere Valley Bank - Waste Water Treatment Plant Upgrade Bond Anticipation Note (BAN)	\$ 1,697,788	\$ -	\$ 1,697,788	\$ -

This BAN (line-of-credit) was a general obligation debt of the City with a pledge of sewer utility revenues. It was authorized for up to \$1,900,000 although only \$1,697,788 had been drawn at the time of redemption. The interest rate was calculated at 80% of the Wall Street Journal prime rate. The BAN's rate at the time of redemption was 2.93%. The City redeemed this BAN in full, and the \$3,000,000 interfund loan from the water fund to the sewer fund, on August 24, 2011 with the proceeds from a 20 year limited tax general obligation sewer utility bond.

NOTE 9 - LONG-TERM DEBT

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

The City presently has one local improvement district bond (LID) outstanding and one of its Washington State Public Works Trust Fund (PWTF) loans is designated as revenue debt and another as LID debt. Limited tax general obligation bonds still outstanding have been used to refinance revenue bonds. In such cases, the outstanding bonds are being repaid entirely from utility revenues although the bonds also carry the full faith and credit guarantee of the general government. The City is also liable for notes that were entered into for the purchase of agricultural land 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 at December 31, 2011 is comprised of the following:

Type of Debt or Related Item	Governmental Activities	Business-Type Activities
Unlimited Tax General Obligation Bonds	\$ 6,130,000	\$ -
Limited Tax General Obligation Bonds	14,305,000	5,490,000
Limited Tax General Obligation Long-Term Debt	990,726	3,742,259
Revenue Obligation Long-Term Debt	-	2,821,896
Local Improvement District Obligation Long-Term Debt	755,300	3,867,500
Long-Term Debt analyzed in this Note below	22,181,026	15,921,655
Other Components of Debt:	-	-
Capital Leases – See Note No. 9. B. 2	170,797	-
Other Post Employment Benefits – See Note No. 14	139,565	-
Compensated Absences – See Note No. 1. E. 6	475,461	363,064
Unamortized Bond Discounts, Premiums and Issuance Costs	247,017	186,058
Unamortized Loss on Refunding of Prior Long-Term Debt	(385,341)	(5,455)
Total General Long-Term Debt reported on the Statement of Net Assets	\$ 22,828,525	\$ 16,465,322

General Obligation Bonds currently outstanding are as follows:

Purpose	Interest Rates	Governmental Activities	Business-Type Activities
Open Space Acquisitions	2.50 - 4.70%	\$ 6,130,000	\$ -
Roads, Open Space and Parks	3.25 - 4.70%	5,135,000	-
Refinance City Hall and Facility Construction Bonds	3.00 - 5.00%	9,170,000	-
Wastewater Treatment Plant Upgrade Bonds	2.00 - 4.00%	-	5,490,000
Total General Obligation Bonds		\$ 20,435,000	\$ 5,490,000

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

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 1,840,000	\$ 838,398	\$ 405,000	\$ 188,650
2013	1,905,000	772,873	410,000	180,550
2014	1,975,000	702,179	425,000	172,350
2015	2,055,000	628,806	200,000	163,850
2016	2,125,000	552,863	205,000	157,850
2017 - 2021	6,880,000	1,557,763	1,140,000	679,100
2022 - 2026	3,105,000	435,290	1,385,000	434,800
2027 - 2031	550,000	23,978	1,320,000	134,600
Total	\$ 20,435,000	\$ 5,512,149	\$ 5,490,000	\$ 2,111,750

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%	\$ 449,000	\$ -
PWTF Loan for Street Improvements	1.00%	139,423	-
PWTF Loan for Emergency Storm Street Repairs	3.00%	402,303	-
PWTF Loan Storm Drain Decant Facility Design	0.50%	-	124,086
PWTF Loan Sewage Treatment Plant Design	0.50%	-	274,137
PWTF Loan Storm Drain Decant Facility Constr.	0.50%	-	576,210
PWTF Loan Sewage Treatment Plant Constr. Loan #1	0.50%	-	2,767,826
Total Other General Obligation Debt		\$ 990,726	\$ 3,742,259

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

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 158,520	\$ 41,887	\$ 269,492	\$ 18,711
2013	158,520	33,229	269,492	17,364
2014	158,520	24,570	269,492	16,016
2015	158,520	15,912	269,492	14,669
2016	23,665	10,160	269,492	13,321
2017 - 2021	167,326	35,497	1,347,462	46,395
2022 - 2026	118,324	17,749	1,047,337	12,862
2027 - 2031	47,330	2,130		
Total	\$ 990,726	\$ 181,134	\$ 3,742,260	\$ 139,339

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

Purpose	Interest Rates	Governmental Activities	Business-Type Activities
PWTF Loan Sewage Treatment Plant Constr. Loan #2	0.50%	\$ -	\$ 2,821,896
Total Revenue Obligation Debt		\$ -	\$ 2,821,896

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

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2012	\$ -	\$ -	\$ 188,126	\$ 14,109
2013	-	-	188,126	13,169
2014	-	-	188,126	12,228
2015	-	-	188,126	11,288
2016	-	-	188,126	10,347
2017 - 2021	-	-	940,633	37,625
2022 - 2026	-	-	940,633	14,109
2027 - 2031	-	-	-	-
Total	\$ -	\$ -	\$ 2,821,896	\$ 112,875

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

Purpose	Interest Rates	Governmental Activities	Business-Type Activities
PWTF Loan South Island Sewer Lines Constr.	0.50%	\$ -	\$ 3,867,500
Local Improvement District No. 22 Bonds Street Constr.	4.56%	\$ 755,300	-
Total LID Obligation Debt		\$ 755,300	\$ 3,867,500

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

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 70,300	\$ 36,355	\$ 297,500	\$ 19,338
2013	70,000	31,236	297,500	17,850
2014	70,000	28,044	297,500	16,363
2015	70,000	24,852	297,500	14,875
2016	70,000	21,660	297,500	13,388
2017 - 2021	325,000	62,700	1,487,500	44,625
2022 - 2026	80,000	5,472	892,500	8,925
2027 - 2031	-	-	-	-
Total	\$ 755,300	\$ 210,319	\$ 3,867,500	\$ 135,363

A. Changes in Long-Term Liabilities

During the year ending December 31, 2011 the following changes occurred in long-term liabilities:

	Beginning Balance Jan. 1, 2011	Additions	Reductions	Ending Balance Dec. 31, 2011	Due Within One Year
Governmental Activities:					
Unlimited Tax General Obligation Bonds	\$ 6,390,000	\$ -	\$ (260,000)	\$ 6,130,000	\$ 400,000
Limited Tax General Obligation Bonds	15,700,000	-	(1,395,000)	14,305,000	1,440,000
LID Bonds	-	755,300	-	755,300	70,300
Total Bonds Payable	22,090,000	755,300	(1,655,000)	21,190,300	1,910,300

	Beginning Balance Jan. 1, 2011	Additions	Reductions	Ending Balance Dec. 31, 2011	Due Within One Year
Land Purchase Contracts	566,000	-	(117,000)	449,000	100,000
Capital Leases	136,534	79,360	(45,097)	170,797	55,172
Loans from Other Gov'ts	600,245	-	(58,520)	541,725	58,520
Compensated Absences	508,686	114,499	(147,724)	475,461	150,000
OPEB Payable	104,832	84,099	(49,366)	139,565	50,000
Total Governmental Activity long-term liabilities	\$24,006,297	\$ 1,033,258	\$ (2,072,707)	\$22,966,848	\$ 2,323,992
Business-Type Activities:					
Limited Tax General Obligation Bonds	\$ 860,000	\$ 5,700,000	\$ (1,070,000)	\$ 5,490,000	\$ 405,000
Loans from Other Gov'ts	11,186,773	-	(755,119)	10,431,654	779,922
Compensated Absences	381,920	64,980	(83,836)	363,064	85,000
Bond Anticipation Note	1,697,788	-	(1,697,788)	-	-
Total Business-Type Activity long-term liabilities	\$14,126,481	\$ 5,764,980	\$ (3,606,743)	\$16,284,718	\$ 1,269,922

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

B. Leases

1. Operating Leases

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

2. Capital Leases

Capital lease obligations outstanding at December 31, 2011 are as follows:

Purpose	Interest Rate	Amount
Capital Lease – Police Vehicles & Survey Equipment	3.23%	\$ 103,472
Capital Lease – Police Vehicles	4.51%	67,325
Total Capital Lease Obligations		\$ 170,797

The assets acquired through Capital Leases are as follows:

Asset	Governmental Activity	Business-Type Activity
Telephone System	\$ 387,392	\$ -
Vehicles	947,059	-
Survey Equipment	28,000	-
Less Accumulated Depreciation	(1,211,442)	-
Total	\$ 151,008	\$ -

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2011 are as follows:

Year Ending December 31	Governmental Activity	Business-Type Activity
2012	\$ 60,536	\$ -
2013	60,536	-
2014	60,536	-
Less Interest	(10,811)	-
Present Value of Minimum Lease Payments	\$ 170,797	\$ -

NOTE 10 – CLAIMS, CONTINGENCIES, LITIGATION AND OTHER LIABILITIES

In the opinion of management, the City's insurance policies and/or self-insurance reserves are adequate to pay all known or pending claims, suits and other actions in which payment is considered probable (see Note No. 7 – Risk Management). Except as disclosed below, there are no judgments against the City, and the City has no material contingent liabilities for which it does not also have insurance coverage. As a result, the City has not recorded any contingent liabilities because management believes that it is not probable that payment will be required.

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

There is no requirement to pay out accumulated sick leave except as explained in Note No. 1. E. 6. – Compensated Absences. However, employees can draw on that time in the future if sick or injured. As of December 31, 2011 and 2010 the value of total accumulated sick leave was \$1,274,203 and \$1,264,046 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, 2011 and 2010 was \$99,358 and \$104,050 respectively.

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

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

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

Bainbridge Ratepayers Alliance (BRA) v. Bainbridge Island. This is a long-running challenge to various utility expenditures brought by the BRA in state court. Of the 12 causes of action, the issue of Storm and Surface Water Management (SSWM) rates is the most significant in terms of monetary consequence. The court's ruling on this issue has now become final and the appeal period has run. In July 2011 the court ruled that the City's attempt to retroactively change the SSWM rates charged to City streets from the 100% impervious surface rate that was set in a 2007 ordinance to a 30% rate based on a state statute applicable to state roads was arbitrary and therefore unlawful.

In February 2012, however, the court ruled that because the SSWM charges to streets involved an inter-fund issue that did not affect other ratepayers, the City could take up to nine months to enact a new, retroactive ordinance based on an analysis rather than simply importing a standard adopted for state roads by the state legislature. The court also rejected the plaintiffs' request for over \$100,000 in attorney fees. Neither the plaintiffs nor the City appealed this ruling, so it is final. The City has until November 29, 2012 to adopt a new city SSWM rate ordinance applicable to streets that can be retroactive to 2007.

The City has contracted with a rate consultant to provide an outside analysis of this issue. With the assistance of the consultant, the City expects to adopt a retroactive SSWM rate ordinance before the November 29 deadline. Any retroactive transfer of funds – either from the general fund to the SSWM fund or from the SSWM fund to the general fund – will depend upon the new rates ultimately adopted by the Council. At this point the City is unable to assess the outcome or fiscal impact of this lawsuit.

Ostling v. Bainbridge Island, et al. This is a wrongful death damage action brought by the parents and sister of Douglas Ostling, who was shot by City of Bainbridge Island police officers, after the failure of a Taser when he continued to confront the officers with an axe in response to a 911 call to his parents' house. Mr. Ostling died of his wounds before emergency responders were able to enter his locked room.

The Ostling case went to trial before a jury in Federal Court on May 14. On June 1, the jury returned a verdict which found that Bainbridge Island police officer who shot Douglas Ostling had not violated his constitutional rights by 1) engaging in an unlawful search, 2) excessive use of force or 3) by failing to

render aid after the shooting. The jury, however, did find that the Bainbridge Island police chief and the City had violated Ostling’s constitutional rights by failure to adequately train its officers in mental health issues. The jury awarded the Ostling family a total of \$1 million.

In June, lawyers for the City filed two post judgment motions. The first asks to overturn the verdict on the basis that once having found no constitutional violation by the officer involved in the shooting, there can be no institutional responsibility for an incident in which no constitutional violation was found. The second motion asks the court to order a new trial on the basis that one of the personally named defendants – the police chief – was not available to testify in his own defense at the trial due to severe illness, yet the judge order the trial to proceed without him.

These two post-trial motions are still pending, and thus the appeal period to the 9th Circuit has not yet started to run.

NOTE 11 – INTERFUND BALANCES AND TRANSACTIONS

A. Interfund Balances

At year-end December 31, 2011 the City had no interfund loans outstanding between funds.

B. Interfund transfers

Interfund transfers for the year ended December 31, 2011 were as follows:

	Transfers from General Fund	Transfers from Real Estate Excise Tax Fund	Transfers from LID Construction Fund	Total	Purpose of Transfer
Receiving Fund:					
Streets Fund	\$ -	\$ 1,026,000	\$ -	\$ 1,026,000	Operating Subsidy
General Obl. Bond Fund	1,918,500	169,000	-	2,087,500	Debt Service
Construction Fund	-	-	50,000	50,000	Construction Support
Bldg. & Dev. Svcs. Fund	835,000	-	-	835,000	Operating Subsidy
Total Governmental Activities	\$ 2,753,500	\$ 1,195,000	\$ 50,000	\$3,998,500	

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 2011 but chose to treat these activities as quasi-external transactions as allowed under GAAP.

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

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

NOTE 12 – RECEIVABLE AND PAYABLE BALANCE

A. Receivables

Receivables (net of amounts determined to be uncollectible) at December 31, 2011 were as follows:

	Accounts	Taxes	Special Assessments	Due from Other Governments or Funds	Total
Governmental Activities:					
General Government	\$ 107,005	\$ 1,435,099	\$ -	\$ -	\$ 1,542,104
Public Safety	-	-	-	17,663	17,663
Transportation	647	-	782,339	235,885	1,018,872
Culture & Recreation	-	17,343	-	6,295	23,638
Judicial	257,856	-	-	-	257,856
Physical Environment	-	-	-	119,772	119,772
Total Governmental Activities	\$ 365,508	\$ 1,452,442	\$ 782,339	\$ 379,615	\$ 2,979,905
Business-Type Activities:					
Water	\$ 53,624	\$ -	\$ -	\$ -	\$ 53,624
Sewer	88,156	-	3,418,413	-	3,506,568
Storm & Surface Water	158,672	-	-	18,717	177,389
Bldg. & Dev. Services	868	-	-	-	868
Total Business-Type Activities	\$ 301,320	\$ -	\$ 3,418,413	\$ 18,717	\$ 3,738,449

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

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

B. Payables

Payables at December 31, 2011 were as follows:

	Vendors	Salaries and Benefits	Other	Total
Governmental Activities:				
General Government	\$ 207,118	\$ 181,540	\$ -	\$ 388,658
Public Safety	41,209	122,318	-	163,526
Transportation	439,235	46,478	134,469	620,181
Culture & Recreation	30,623	127	-	30,751
Judicial	240	3,745	-	3,985
Economic Environment	15,296	-	-	15,296
Health and Human Service	17,512	-	-	17,512
Total Governmental Activities	\$ 751,234	\$ 354,206	\$ 134,469	\$ 1,239,909
Business-Type Activities:				
Water	\$ 50,215	\$ 26,720	\$ -	\$ 76,934
Sewer	44,650	43,025	40,049	127,724
Storm & Surface Water	117,793	38,741	1,751	158,285
Bldg. & Dev. Services	3,905	73,258	-	77,163
Total Business-Type Activities	\$ 216,564	\$ 181,744	\$ 41,800	\$ 440,107

NOTE 13 – SEGMENT INFORMATION

For the City of Bainbridge Island, there are no revenue bonds issued or other revenue-backed debt outstanding for which full, detailed segment data is required to be provided in the basic financial statements. However, because the City has issued limited tax general obligation bonds backed by a pledge of the revenues of the City's wastewater treatment system, the following information is provided. In addition, the City's general obligation debt pledges all revenues from all sources.

The City's water utility provides domestic water, irrigation water, and fire flow water to roughly 2,300 customers, primarily in the Winslow area. Its sewer utility provides wastewater collection in the South Island and Lynwood Center areas to roughly 200 customers, and collection and treatment in the Winslow area to roughly 1,900 customers. Its storm and surface water management (SSWM) utility provides storm drainage facilities throughout the island as well as watershed education. Development services consists of the land use approval and regulatory process for land use actions, while building services provides the regulatory process for building and related permits.

All segments are presented as major proprietary funds in the City's financial statements.

NOTE 14 – 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. 9 (Long-Term Debt) and as described below for the Law Enforcement Officers and Firefighters (LEOFF) retirement system for employees hired before October 1, 1977.

Plan Description

As required by RCW 41.26, the City provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a defined benefit healthcare plan administered by the City. The members' necessary hospital, medical, and nursing care expenses are covered by the City if not payable by worker's compensation, social security, insurance provided by another employer, other pension plan or other similar source. One of the City's employee medical insurance programs provides most medical coverage for eligible retirees. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions. Financial reporting for the LEOFF retiree healthcare plan is included in Note No. 6 (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, 2011. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB. The net OPEB obligation (NOO) of \$139,565 is included as a noncurrent liability on the statement of net assets.

	Fiscal Year Ending 12/31/2011	Fiscal Year Ending 12/31/2010
Determination of Annual Required Contribution:		
Normal Cost at Year End	\$ -	\$ -
Amortization of UAAL*	89,143	92,414
Interest for Year	-	-
Annual Required Contribution	\$ 89,143	\$ 92,414

Determination of Net OPEB Obligation:		
Annual Required Contribution	\$ 89,143	\$ 92,414
Interest on Prior Year Net OPEB Obligation	4,717	2,692
Adjustment to ARC	(9,761)	(5,571)
Annual OPEB Cost	\$ 84,099	\$ 89,535

	Fiscal Year Ending 12/31/2011	Fiscal Year Ending 12/31/2010
Contributions Made	\$ (49,366)	\$ (44,533)
Increase in Net OPEB Obligation	\$ 34,733	\$ 45,002

Net OPEB Obligation-Beginning of Year	\$ 104,832	\$ 59,830
Net OPEB Obligation-End of Year	\$ 139,565	\$ 104,832

*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 2011 and the two prior years is as follows:

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

Funded Status and Funding Progress

As of January 1, 2011 the most recent calculation date, the plan was 0% funded. The accrued liability for benefits was \$957,355 and the actuarial value of the assets was \$0 resulting in a UAAL of \$957,355. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Actuarial Methods and Assumptions

The City has used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for determining the actuarial accrued liability. Termination and mortality rates were assumed to follow the LEOFF I termination and mortality rates used in the June 30, 2007 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the statewide LEOFF I medical study performed in 2007. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the actuarial accrued liability (AAL) was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 15 - OTHER DISCLOSURES

On December 14, 2011 the City Council passed three ordinances related to 2012 utility rates. Ordinance No. 2011-25 eliminated a planned 20% sewer rate increase. Ordinance No. 2011-26 reduced water rates by 11% on top of a 34% reduction authorized in September 2011. Ordinance No. 2011-27 eliminated a planned CPI (Consumer Price Index) percentage increase in storm and surface water management rates.

On May 19, 2009 the residents of the City of Bainbridge Island voted to change from the mayor-council form of government to a council-manager form of government. On May 27, 2009 the City Council had the first reading of Ordinance No. 2009-12 accepting that change. The City received confirmation on June 3, 2009 from 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 a 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 16 – SUBSEQUENT EVENTS

On February 1, 2012 the City Council amended the City Manager's contract to allow for the search for a new City Manager. On March 14, 2012 the City Council terminated the City Manager's contract effective the next day. On April 18, 2012 the City Council selected the Deputy City Manager to serve as Interim City Manager. The City is in the process of conducting a nationwide search for a new chief administrator.

CITY OF BAINBRIDGE ISLAND
 Budgetary Comparison Schedule - Required Supplementary Information
 General Fund
 For the Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Revised		
REVENUES				
Property Taxes	\$ 6,507,991	\$ 6,507,991	\$ 6,550,421	\$ 42,430
Other Taxes	6,722,711	6,722,711	6,372,640	(350,071)
Fees and Fines	249,500	249,500	191,636	(57,864)
Licenses and Permits	577,916	577,916	542,110	(35,806)
Intergovernmental	507,695	638,695	571,986	(66,709)
Charges for Services	699,819	699,819	568,315	(131,504)
Interest	20,999	20,999	34,954	13,955
Other Revenues	62,157	62,157	125,832	63,675
Total Revenues	15,348,788	15,479,788	14,957,895	(521,893)
EXPENDITURES				
General Government	3,011,852	3,359,978	3,030,686	329,292
Judicial	618,588	601,160	569,333	31,828
Public Safety	3,892,311	3,940,830	3,800,938	139,892
Physical Environment	654,793	918,076	752,236	165,839
Health and Human Services	296,125	296,125	285,430	10,695
Economic Environment	1,122,920	1,026,590	951,134	75,457
Culture and Recreation	313,850	328,127	241,477	86,650
Debt Service - Principal	74,433	74,433	162,097	(87,664)
Debt Service - Interest	48,997	48,997	49,544	(547)
Capital Outlay	102,850	325,620	327,827	(2,207)
Total Expenditures	10,136,720	10,919,936	10,170,701	749,235
Operating Income (Loss)	5,212,068	4,559,852	4,787,194	227,342
OTHER FINANCING SOURCES/USES				
Proceeds from sale of fixed assets	170,000	170,000	705,156	535,156
Proceeds of general long term debt	86,000	86,000	79,360	(6,640)
Transfers - Out	(3,514,434)	(3,579,994)	(2,753,500)	826,494
Total Other Financing Sources/Uses	(3,258,434)	(3,323,994)	(1,968,985)	1,355,009
Net Change in Fund Balance	1,953,634	1,235,858	2,818,209	1,582,351
Fund Balances -- Beginning	494,629	494,629	3,752,634	3,258,005
Total Ending Fund Balance	\$ 2,448,263	\$ 1,730,487	\$ 6,570,843	\$ 4,840,356

CITY OF BAINBRIDGE ISLAND
 Budgetary Comparison Schedule - Required Supplementary Information
 Special Revenue Fund-Streets
 For the Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Revised		
REVENUES				
Other Taxes	\$ 545,520	\$ 545,520	\$ 552,436	\$ 6,916
Licenses and Permits	55,000	55,000	18,195	(36,805)
Intergovernmental	508,550	508,550	484,706	(23,844)
Charges for Services	-	-	295	295
Other Revenues	321,525	321,525	367,128	45,603
Total Revenues	1,430,595	1,430,595	1,422,760	(7,835)
EXPENDITURES				
General Government	313,312	322,423	337,918	(15,494)
Public Safety	-	3,435	4,723	(1,288)
Physical Environment	55,162	17,431	20,044	(2,612)
Transportation	1,996,178	1,766,853	1,707,826	59,027
Economic Environment	9,458	992	-	992
Capital Outlay	420,000	400,000	401,158	(1,158)
Total Expenditures	2,794,110	2,511,133	2,471,668	39,465
Operating Income (Loss)	(1,363,515)	(1,080,538)	(1,048,908)	31,630
OTHER FINANCING SOURCES/USES				
Proceeds from sale of fixed assets	17,500	17,500	23,311	5,811
Transfers - In	1,346,340	1,637,448	1,026,000	(611,448)
Total Other Financing Sources/Uses	1,363,840	1,654,948	1,049,311	(605,637)
Net Change in Fund Balance	325	574,410	403	(574,007)
Fund Balances -- Beginning	0	0	20	20
Total Ending Fund Balance	\$ 325	\$ 574,410	\$ 423	(\$ 573,986)

CITY OF BAINBRIDGE ISLAND

**REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011**

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	\$ 99,388	\$ 98,579	\$ 97,841	\$ 738
Executive	1,833,421	1,875,599	1,662,355	213,244
Judicial	535,541	518,113	487,441	30,672
Finance	5,577,603	5,980,875	4,931,671	1,049,204
Information Technology	624,866	647,975	636,486	11,489
Police	3,757,975	3,919,493	3,694,684	224,809
Planning	2,247,308	2,811,518	2,410,240	401,278
Public Works	13,293,964	14,084,958	11,067,860	3,017,098
General Government	13,612,805	14,804,778	13,914,667	890,111
Total	\$ 41,582,871	\$ 44,741,888	\$ 38,903,245	\$ 5,838,643

The 2011 budget was passed in November 2010. The original appropriated budget included \$4,623,326 in interfund transfers. Unspent amounts in the finance department represent planned transfers that were not necessary from the general fund to the building and development services fund. Significant unspent amounts in the planning and public works departments were due to unfinished capital projects. Unspent amounts in the general government fund were due to planned debt service on the 2011 \$5.7 million LTGO bonds that were issued much later in the year than originally estimated.

LEOFF I RETIREE MEDICAL BENEFITS - SCHEDULE OF FUNDING PROGRESS

Fiscal Year Ended	Actuarial Value of Assets	Accrued Liability - Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2011	\$ -	\$ 957,355	\$ 957,355	0%	\$ -	0%
12/31/2010	\$ -	\$ 992,483	\$ 992,483	0%	\$ -	0%
12/31/2009	\$ -	\$ 1,050,090	\$ 1,050,090	0%	\$ -	0%

CITY OF BAINBRIDGE ISLAND
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2011

Grantor/Pass Through Agency and Program Title	Federal CFDA	Other Identification	Current Year Expenditures
U.S. Dept. of Homeland Security, Office of Justice Programs - agency direct program			
ARRA EDWARD BYRNE MEMORIAL FORMULA GRANT	16.579	2010-SB-B9-0025	\$ 13,108
U.S. Dept. of Homeland Security - pass through State Parks and Recreation Commission			
BOATING SAFETY FINANCIAL ASSISTANCE			
Safer Boating Grant - Round three grant	97.012	LE 911-207	8,875
Safer Boating Grant - Round four grant	97.012	LE 911-445	6,395
<u>Total U.S. Department of Homeland Security</u>			<u>28,379</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) LA-7252	107,300
North Madison Non-Motorized Improvements Phase I	20.205	STPUS-6709(001) LA-7246	200,062
Winslow Way Reconstruction	20.205	STPUS-6701(002) LA-7305	1,679,749
U.S. Dept. of Transportation - pass through State Traffic Safety Commission			
ALCOHOL IMPAIRED DRIVING COUNTERMEASURES INCENTIVE GRANTS I			
Emphasis Patrols - June 2011	20.601	None	464
<u>Total U.S. Department of Transportation</u>			<u>1,987,575</u>
U.S. Dept. of Energy - pass through State Dept. of Commerce			
ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT (EECBG)			
ARRA Bainbridge Energy Challenge Credit Enhancement	81.128	F11-52112-007 and DOE #DE-EE0000849	100,000
ARRA Residential Energy Reports & Charging Stations	81.128	F10-52110-016 and DOE #DE-EE0000849	35,000
<u>Total U.S. Department of Energy</u>			<u>135,000</u>
U.S. Dept. of Interior, National Parks Service - pass through State Dept. of Archeology and Historic Preservation			
HISTORIC PRESERVATION FUND GRANTS-IN-AID			
Bainbridge Island Historic Structures Survey	15.904	FY11-61011-009	6,295
<u>Total U.S. Department of Interior, National Parks Service</u>			<u>6,295</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 2,157,249</u>

CITY OF BAINBRIDGE ISLAND
Notes to the Schedules of Expenditures of Federal and State Awards
For the Year Ended December 31, 2011

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).

NOTE 4 – FEDERAL LOAN

In early 2011 the City disbursed \$100,000 in U.S. Department of Energy, Energy Efficiency and Conservation Block Grant (EECBG) funds to the Kitsap Credit Union (KCU) under the Bainbridge Energy Challenge program. These funds were used by KCU as loan loss reserves so as to offer reduced interest rates to homeowners for home energy efficiency improvements. At the end of the program or 20 years, whichever comes sooner, KCU is to return any unused funds to the City to be used in other approved EECBG activities.



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.

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Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
Director of Performance Audit
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Director for Legal Affairs
Director of Quality Assurance
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Communications Director
Public Records Officer
Main number
Toll-free Citizen Hotline

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Jerry Pugnetti
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