



# Washington State Auditor's Office

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## Financial Statements and Federal Single Audit Report

### City of Bainbridge Island

Kitsap County

For the period January 1, 2014 through December 31, 2014

Published July 20, 2015

Report No. 1014609





## Washington State Auditor's Office

July 20, 2015

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,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

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## FEDERAL SUMMARY

**City of Bainbridge Island  
Kitsap County  
January 1, 2014 through December 31, 2014**

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 unmodified 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 unmodified opinion on the City's compliance with requirements applicable to its major federal program.

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 was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
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.

## STATUS OF PRIOR FEDERAL AUDIT FINDINGS

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.

<b>Audit Period:</b> 2013	<b>Report Ref. No.:</b> 1012614	<b>Finding Ref. No.:</b> 2013-001	<b>CFDA Number(s):</b> 20.205
<b>Federal Program Name and Granting Agency:</b> Highway Planning and Construction, U.S. Department of Transportation, Federal Highway Administration		<b>Pass-Through Agency Name:</b> Washington Department of Transportation	
<b>Finding Caption:</b> The City’s internal controls were inadequate to ensure compliance with federal Davis-Bacon Act (prevailing wage) requirements for its Highway Planning and Construction Grant.			
<b>Background:</b> The 2013 audit found that the City did not monitor to ensure that contractors and subcontractors paid prevailing wage and did not obtain weekly certified payrolls for one of its projects, as required by the federal Davis Bacon Act.			
<b>Status of Corrective Action: (check one)</b>			
<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
<b>Corrective Action Taken:</b> <i>Incorporated greater compliance processes by adding additional checklist items for projects that are federally funded, specifically surrounding the certified payroll/prevailing wage requirements. Have conducted staff trainings as follow up.</i>			

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**City of Bainbridge Island  
Kitsap County  
January 1, 2014 through December 31, 2014**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bainbridge Island, Kitsap County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 24, 2015.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **COMPLIANCE AND OTHER MATTERS**

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

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

## **PURPOSE OF THIS REPORT**

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



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

June 24, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

**City of Bainbridge Island  
Kitsap County  
January 1, 2014 through December 31, 2014**

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

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

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, 2014. The City's major federal programs are identified in the accompanying Federal Summary.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of 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, 2014.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any

deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **PURPOSE OF THIS REPORT**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

June 24, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Bainbridge Island Kitsap County January 1, 2014 through December 31, 2014

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

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bainbridge Island, Kitsap County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 15.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bainbridge Island, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 24, information on postemployment benefits other than pensions on page 67 and budgetary comparison information on pages 68 through 70 and be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted 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 basic 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 basic financial statements or to the basic 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.

### **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 24, 2015

## FINANCIAL SECTION

**City of Bainbridge Island  
Kitsap County  
January 1, 2014 through December 31, 2014**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2014

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net  
Position – 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2014

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance  
of Governmental Funds to the Statement of Activities – 2014

Statement of Net Position – Proprietary Funds – 2014

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds  
– 2014

Statement of Cash Flows – Proprietary Funds – 2014

Statement of Net Position – Fiduciary Funds – 2014

Notes to the Financial Statements – 2014

### **REQUIRED SUPPLEMENTARY INFORMATION**

LEOFF 1 Retiree Medical Benefits – Schedule of Funding Progress – 2014

Budgetary Comparison Information – 2014

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards and Notes – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014



## **CITY OF BAINBRIDGE ISLAND, WASHINGTON**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2014**

This narrative provides an overview and analysis of the City of Bainbridge Island's (City) financial activities for the fiscal year ending December 31, 2014. The purpose is to highlight significant financial issues and activities, the resulting changes in financial position and economic factors that affected the City. We encourage readers to consider this information in conjunction with the accompanying transmittal letter, basic financial statements and notes to the financial statements.

#### **FINANCIAL HIGHLIGHTS**

- The City's assets and deferred outflows exceeded its liabilities at the close of the most recent fiscal year by \$141,627,065. Of this amount, \$21,857,451 is reported as unrestricted net position and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$5,418,564, or 4%. This increase was primarily the result of an increase in the City's cash position, a normal decrease in long-term debt through regular debt service and an increase in capital assets due to ongoing capital construction projects.
- At the close of 2014, the City's governmental funds reported combined ending fund balances of \$15,025,702, an increase of \$3,415,410 in comparison to the prior year.
- The most significant revenue component of governmental activities is the general tax base. At \$18,074,181, taxes represent 82% of the \$22,048,051 in total revenues.
- Property tax is the single largest source of governmental activities revenue, at \$7,447,993 or 34% of total revenues. This is typical for cities like Bainbridge Island with a low retail sales base.
- Total General Revenues for governmental activities increased \$1,152,202 compared to 2013, primarily due to revenue received for real estate excise tax (REET) and sales and use tax. Due to a data error, REET revenue due to the City was underpaid over the last several years. This revenue was received in July 2014, increasing the 2014 total as compared to prior years.
- The City's total liabilities decreased by \$878,811 to \$34,653,201. Governmental activities long-term debt decreased by \$2,297,786 or 12% while business-type activities long-term debt increased by \$1,747,765 or 12%.
- The City fully funded all policy reserves set by the City Council.



## OVERVIEW OF THE FINANCIAL STATEMENTS

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

### Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. They present governmental activities and business-type activities separately. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt). Additionally, certain eliminations have been made with regards to interfund activity, payables and receivables.

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

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

In the statement of net position and the statement of activities and changes in net position, we distinguish the City's functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a portion of their costs through user fees and charges (business-type activities). The activities of these two functional groups are as follows:

- Governmental activities – Most of the City's basic services are reported in this category, including general government, judicial, police, planning and community development, and public works. Property taxes, sales and other taxes, user fees, interest income, franchise fees, and state and federal grants finance these activities.
- Business-type activities – The City charges a fee to customers to recover 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, these funds include the General Fund, the Streets Fund, the Real Estate Excise Tax Fund, and the General Obligation Bond Fund. All other governmental funds are reported in a single column (non-major funds).

Proprietary funds financial statements consist of a statement of net position, a statement of revenues, expenses and changes in fund net position, and a statement of cash flows. These statements are prepared on an accounting basis similar to that used to prepare the government-wide financial statements. For financial reporting purposes, Proprietary Funds are grouped into Enterprise Funds and Internal Service Funds although the City has no Internal Service Funds at this time. The City uses Enterprise Funds to account for business-type activities that charge fees to customers for the use of specific goods or services. Balances and activities accounted for in the City's Enterprise Funds are also reported in the business-type activities columns of the government-wide financial statements.

The City presents all Enterprise Funds in separate columns to facilitate review of the information presented. 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.

Fiduciary funds financial statements consist of a statement of fiduciary net position. These assets are held by the City for other parties as an agent and cannot be used to finance City operations. The City is responsible for ensuring that the activities reported in Fiduciary Funds are based on their intended purposes. As noted earlier, Fiduciary Fund activity is not reported in the government-wide financial statements.

## **Notes to the Financial Statements**

The notes to the financial statements 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.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Overall, the City's financial position in 2014 built on the stability achieved since 2011. The City implemented a city-wide reorganization in 2011, including reducing staff and services, which resulted in revenues exceeding expenditures. More details about the overall increase are discussed in the following sections for governmental activities and business-type activities.

The largest portion of total City assets is the City's investment in Capital Assets less any related debt, at \$116,722,091 or 82% of total net position. The City uses these assets, such as facilities, vehicles, land

and infrastructure, to provide services to citizens. Thus, these assets are not available for future spending. An additional portion of the City's net position represents resources that are restricted by federal and state laws and by debt covenants. At the end of 2014, restricted funds totaled \$3,047,523 or 2% of the total net position. The remaining balance, \$21,857,451, or 16%, is unrestricted and may be used to meet the ongoing obligations of the City.

The City's overall financial position and results of operations for the past two years are summarized in the table below. This information is based on data in the government-wide financial statements.

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Cash and Cash Equivalents	\$15,725,041	\$12,208,401	\$12,208,039	\$11,739,149	\$27,933,080	\$23,947,550
Other Assets	2,985,526	3,719,655	2,428,132	2,715,457	5,413,659	6,435,112
Capital Assets	97,499,793	97,641,715	45,015,820	43,213,804	142,515,613	140,855,519
<b>Total Assets</b>	<b>116,210,360</b>	<b>113,569,771</b>	<b>59,651,991</b>	<b>57,668,411</b>	<b>175,862,352</b>	<b>171,238,181</b>
<b>Deferred Outflows of Resources</b>	<b>417,914</b>	<b>500,514</b>	<b>-</b>	<b>1,818</b>	<b>417,914</b>	<b>502,332</b>
Other Liabilities	1,016,530	1,264,711	629,242	709,851	1,645,771	1,974,562
Long Term Debt	16,541,883	18,839,669	16,465,546	14,717,781	33,007,429	33,557,450
<b>Total Liabilities</b>	<b>17,558,413</b>	<b>20,104,380</b>	<b>17,094,787</b>	<b>15,427,632</b>	<b>34,653,201</b>	<b>35,532,012</b>
Net Investment in Capital Assets	87,355,752	85,283,250	29,366,340	28,836,702	116,722,091	114,119,952
Restricted	1,062,180	1,040,858	1,985,342	-	3,047,523	1,040,858
Unrestricted	10,651,929	7,641,796	11,205,522	13,405,895	21,857,451	21,047,691
<b>Total Net Position</b>	<b>\$99,069,861</b>	<b>\$93,965,904</b>	<b>\$42,557,204</b>	<b>\$42,242,597</b>	<b>\$141,627,065</b>	<b>\$136,208,501</b>

In 2014, total net position of the City increased \$5,418,564 or 4%. Governmental activities net position increased \$5,103,957, or 5%, primarily a combination of an increase in cash and cash equivalents and a decrease in long-term debt. Business-type net position increased \$314,607 or 1%, with a \$1,983,580, or 3%, increase in total assets (primarily due to an increase in capital assets) offset by a \$1,667,155, or 11%, increase in total liabilities due to an increase in long-term debt (primarily due to financing for capital assets).

Total cash and cash equivalents increased by \$3,985,530, or 17%, of which \$3,516,640, or 88%, was for governmental activities and \$468,890 was for business-type activities. The increases in cash are primarily due to recent actions taken by the City to bring budgetary expenditures below revenue estimates. In addition, some budgeted positions were unfilled in 2014, and some capital projects slated for 2014 will be completed in 2015, resulting in less than budgeted spending levels in some funds. In addition, real estate excise tax revenue received in 2014 as a back payment due to a data error increased the revenue received in this one year only.

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
<b>Program Revenues</b>						
Charges for Services	\$ 1,231,127	\$ 1,311,435	\$ 7,815,960	\$ 8,379,698	\$ 9,047,088	\$ 9,691,133
Operating Grants & Contributions	574,988	593,471	32,626	114,102	607,614	707,573
Capital Grants & Contributions	1,605,585	1,391,608	494,896	710,202	2,100,481	2,101,810
<b>Total Program Revenues</b>	<b>3,411,700</b>	<b>3,296,514</b>	<b>8,343,483</b>	<b>9,204,002</b>	<b>11,755,183</b>	<b>12,500,516</b>
<b>General Revenues</b>						
Property Taxes	7,447,993	7,408,244	-	-	7,447,993	7,408,244
All Other Taxes	10,626,188	9,662,200	-	-	10,626,188	9,662,200
Interest	93,727	93,052	99,005	74,012	192,732	167,064
Other Revenues	468,444	320,653	12,823	7,351	481,267	328,004
<b>Total General Revenues</b>	<b>18,636,352</b>	<b>17,484,149</b>	<b>111,828</b>	<b>81,363</b>	<b>18,748,180</b>	<b>17,565,512</b>
<b>Total Revenues</b>	<b>22,048,052</b>	<b>20,780,663</b>	<b>8,455,311</b>	<b>9,285,365</b>	<b>30,503,363</b>	<b>30,066,028</b>
<b>Program Expenses</b>						
General Government	5,474,862	5,228,103	-	-	5,474,862	5,228,103
Judicial	593,376	606,610	-	-	593,376	606,610
Public Safety	4,043,430	3,998,794	-	-	4,043,430	3,998,794
Physical Environment	387,958	371,732	-	-	387,958	371,732
Transportation	3,942,553	3,606,161	-	-	3,942,553	3,606,161
Health & Human Svcs	272,680	269,663	-	-	272,680	269,663
Econ. Environment	998,365	929,594	-	-	998,365	929,594
Culture & Recreation	592,822	585,554	-	-	592,822	585,554
Water	-	-	1,260,086	1,235,928	1,260,086	1,235,928
Sewer	-	-	3,278,944	3,102,659	3,278,944	3,102,659
Storm & Surface Water Management	-	-	1,886,197	1,974,234	1,886,197	1,974,234
Building & Development Svcs	-	-	1,911,766	1,717,341	1,911,766	1,717,341
<b>Total Program Expenses</b>	<b>16,306,045</b>	<b>15,596,212</b>	<b>8,336,992</b>	<b>8,030,162</b>	<b>24,643,038</b>	<b>23,626,374</b>
<b>Excess/Deficiency</b>	<b>5,742,007</b>	<b>5,184,451</b>	<b>118,319</b>	<b>1,255,203</b>	<b>5,860,325</b>	<b>6,439,654</b>
<b>Other</b>						
Transfers	(697,220)	(1,983,644)	697,220	1,983,644	-	-
<b>Changes in Net Position</b>	<b>5,044,787</b>	<b>3,200,807</b>	<b>815,539</b>	<b>3,238,847</b>	<b>5,860,325</b>	<b>6,439,654</b>
<b>Beginning Net Position</b>	<b>93,965,904</b>	<b>93,232,684</b>	<b>42,242,597</b>	<b>39,027,303</b>	<b>136,208,501</b>	<b>132,259,987</b>
Prior Period Adjustments	59,171	(2,467,586)	(500,932)	(23,554)	(441,761)	(2,491,140)
<b>Ending Net Position</b>	<b>\$99,069,861</b>	<b>\$93,965,904</b>	<b>\$42,557,204</b>	<b>\$42,242,597</b>	<b>\$141,627,065</b>	<b>\$136,208,501</b>

## GOVERNMENTAL ACTIVITIES

In 2014 there was an increase in net position related to governmental activities of \$5,044,786 or 5% before prior period adjustments. A significant portion of this increase is attributable to the City's ongoing efforts over the last four years to keep recurring expenses below recurring revenues. Another factor is the unexpected increase in development activity within the City resulting in a lower than anticipated transfer out of the general fund to the building and development services fund.

Total revenues increased by \$1,267,389 or 6% to \$22,048,052 in 2014. The largest portion of this was other tax revenue which had an increase of \$963,988 or 10%. This increase was due to higher sales tax revenue and Real Estate Excise Tax revenue, reflecting stronger economic performance within the City and the region.

Governmental activities program expenses in total increased by \$709,833, or 5%, in 2014 as compared to 2013. Expenses increased in all but one of eight program categories, with the largest increase in the transportation expense category by 9%, to \$3,942,553 in 2014. This reflects the city council's commitment to fund transportation within the City.

## BUSINESS-TYPE ACTIVITIES

In 2014 there was an increase in net position related to business-type activities of \$815,539 or 2% before prior period adjustments. The Sewer Fund and the Storm and Surface Water Management Fund both showed balances of operating revenues over expenses, resulting in modest operating income. The Water Fund showed operating expenses greater than revenues, resulting in a small operating loss. The Building and Development Services Fund showed a net operating loss of \$715,190. The Building and Development Services activity recovered 63% of its costs with program revenues. An operating transfer from the General Fund provided additional revenue to cover program costs. The Sewer Fund has \$1,498,303 in fund balance restricted for debt service which may necessitate increased future debt for certain upcoming capital projects.

## ANALYSIS OF BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

The General Fund balance increased \$3,357,700, or 32%, partly because of a decrease in personnel expenditures due to vacant positions and lower than anticipated benefits costs, and also due to a delay in capital projects funded from the General Fund. In addition, transfers out of the General Fund were much lower than anticipated because increased local development activity resulted in higher building and development services revenue than expected, and due to the receipt of some prior years' real estate excise tax revenue. As a result, the General Fund ended the year with a fund balance of \$13,762,552 as compared to \$10,404,852 in 2013.

The Street Fund balance decreased in 2014 from \$513,062 to \$113,877. This decrease was primarily the result of an increase in transportation maintenance expenditures as noted above.

## GENERAL FUND BUDGETARY HIGHLIGHTS

The original 2014 adopted budget anticipated a decrease of 33% in the budgetary fund balance during the year. The budget anticipated relatively flat revenue trends and expenditure increases in only a few select functions. The actual 2014 ending fund balance was \$13,762,552, an increase of \$3,357,700 during the year. Actual revenues exceeded the budget by \$673,010 due mostly to sales taxes and franchise fees that were higher than budgeted. Actual expenditures were \$1,392,756 less than the final budget. As noted above, there were lower than anticipated salary costs and a reduced need for operating support to other funds due to higher than budgeted revenues in those funds. The increased fund balance is also the result of reductions in programs and services as the City continues to adjust to the economic challenges common to many municipalities. The current revenue levels and commensurate service levels

are expected to continue. To learn more about the City's budget process and economic challenges, see Note I.E. in the notes to the financial statements, economic and other factors below and the required supplementary information.

### OTHER FUND BUDGETARY HIGHLIGHTS

Total Street Fund expenditures were \$603,683, or 17%, under the final revised budget due to delay in major repair and maintenance activities. These activities are slated for 2015.

Real Estate Excise Tax Fund final revenues exceeded the original budget by \$1,076,880, or 84%. Due to a data error, revenue due to the City was incorrectly recorded over a period of years, resulting in an underpayment to the City. Revenue for past transactions was received in 2014.

The Building and Development Services Fund revenues from outside sources exceeded budget by \$312,989 or 36% due to higher than budgeted building permit and zoning and plan checking fees resulting from higher than anticipated development activity within the City.

Water Fund revenues were \$214,178, or 21%, over budget due primarily to higher than budgeted revenue from participation fees, or fees paid to join the water utility. Sewer Fund revenues were \$1,394,477, or 17%, lower than budgeted due to the delayed timing of loan proceeds related to a debt-funded capital project. Storm and Surface Water Management Fund revenues were \$358,503, or 15%, less than budget due to budgeted grant revenue delayed because of the timing of certain capital projects.

### CAPITAL ASSETS

The City's net invested in capital assets (net of depreciation) increased \$1,660,094, or 1%, from the previous year. Governmental assets represent 68% of the City's overall net investment in capital assets. Land represents 65% of the governmental activities capital assets net of depreciation, while for the business-type activities, land represents only 4% of the capital assets net of depreciation. Capital assets held by the City at the end of the current and previous years are summarized as follows:

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Land	\$63,633,748	\$63,582,851	\$ 1,796,865	\$ 1,796,865	\$ 65,430,614	\$ 65,379,717
Buildings & Improvements	16,364,451	16,364,451	40,619	40,619	16,405,070	16,405,070
Intangible Assets	880,000	880,000	32,365	32,365	912,365	912,365
Vehicles & Equipment	6,446,254	6,387,065	1,569,005	1,727,786	8,015,259	8,114,850
Infrastructure	38,977,110	37,873,537	61,299,796	57,625,550	100,276,906	95,499,087
Construction in Progress	1,044,698	199,097	336,321	584,275	1,381,020	783,373
Accumulated Depreciation	(29,846,469)	(27,645,286)	(20,059,152)	(18,593,657)	(49,905,621)	(46,238,943)
<b>Totals</b>	<b>\$97,499,793</b>	<b>\$97,641,715</b>	<b>\$ 45,015,820</b>	<b>\$ 43,213,804</b>	<b>\$ 142,515,613</b>	<b>\$ 140,855,519</b>

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 2014 the City's total long-term obligations decreased by \$550,021, or 2%. Governmental activities obligations decreased \$2,297,786, or 12%, due to normal debt retirements. Business-type activities obligations increased \$1,747,765, or 12%, due primarily to an increase in intergovernmental loans. In 2014, the City completed a significant capital project in the sewer utility which was partially funded by a loan from the State of Washington Public Works Board. Of the debt outstanding at the end of 2014, 100% was backed by the full faith and credit of the City. The City makes a general pledge on its tax levy for all bonded debt service and, for utility bonds, an additional pledge of utility revenue, after operating and maintenance expenses.

The debt position of the City is summarized below and in Note 8 in the notes to the financial statements.

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
General Obligation Bonds	\$14,450,000	\$16,420,000	\$ 4,250,000	\$ 4,675,000	\$18,700,000	\$21,095,000
LID Bonds	336,273	373,636	-	-	336,273	373,636
Intergovernmental Loans	466,164	524,684	11,242,799	9,537,448	11,708,963	10,062,131
Land Purchase Contracts	149,000	249,000	-	-	149,000	249,000
Capital Leases	-	58,881	-	-	-	58,881
Compensated Absences	406,875	426,426	329,026	338,860	735,901	765,287
Other Post- Employment Benefits	212,383	192,020	-	-	212,383	192,020
Landfill Post- Closure Care Costs	-	-	487,039	-	487,039	-
Unamortized Bond Discounts & Premiums	521,189	595,021	156,681	166,473	677,870	761,494
<b>Totals</b>	<b>\$16,541,883</b>	<b>\$18,839,669</b>	<b>\$16,465,546</b>	<b>\$14,717,781</b>	<b>\$33,007,429</b>	<b>\$33,557,450</b>

## ECONOMIC AND OTHER FACTORS

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

The 2012 and 2013 budgets continued the lower staffing levels and programmatic reorganization begun in 2011 and included additional staff reductions. In 2014, staffing levels increased by 2.33 FTE or 2%. Changes to the operating budgets from 2012 through 2014 primarily updated revenue estimates to match current projections and adjusted cost factors based on external information such as changes to required state retirement contributions and health plan costs. New programmatic activities in 2014 included an expanded focus on community outreach and engagement, and investment in training and software to support customer service and process improvement.



During the recession, the City's Capital Improvement Plan was curtailed as revenues decreased. However, starting in 2011 and continuing through 2014, the City has undertaken several large capital projects to replace aging utility and street infrastructure, and began discussions regarding potential sites for a new public safety facility. These projects have drawn funding from several sources, including federal and state grants, developer contributions, utility revenue and local sources. In 2014, the City's Transportation Benefit District (TBD) Board authorized expenditure of \$250,000 of TBD funds on qualifying transportation and right-of-way acquisition projects.

The local economy showed signs of stabilization beginning in 2011, continuing through 2014. However, the City does not expect to receive pre-recession levels of revenue growth in the near future. The City has made difficult choices that brought recurring expenses to levels below recurring revenues, and has established prudent financial reserves. These efforts will continue into future years.



**CITY OF BAINBRIDGE ISLAND, WASHINGTON**  
**Statement of Net Position**  
**As of December 31, 2014**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 15,725,041	\$ 12,208,039	\$ 27,933,080
Receivables - Net	1,859,148	520,761	2,379,909
Due from Other Governments	681,058	67,985	749,043
Inventories	115,415	68,381	183,796
Prepays	26,189	-	26,189
Unamortized Bond Insurance Costs	34,030	-	34,030
Special Assessments Receivable	269,687	1,771,005	2,040,692
Depreciable Capital Assets (Net)	31,941,346	42,850,268	74,791,614
Land	63,633,748	1,796,865	65,430,614
Construction in Progress	1,044,698	336,321	1,381,020
Other Capital Assets	880,000	32,365	912,365
Total Assets	<u>116,210,360</u>	<u>59,651,991</u>	<u>175,862,352</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Charge on Debt Refunding	417,914	-	417,914
<b>LIABILITIES</b>			
Accounts Payable	574,365	189,207	763,572
Accrued Expenses	442,164	232,355	674,520
Unearned Revenue	-	207,679	207,679
Compensated Absences	406,875	329,026	735,901
Special Assessment Debt with Governmental Commitment	336,273	2,975,000	3,311,273
Non-Current Liabilities Due Within One Year	2,203,520	842,062	3,045,582
Non-Current Liabilities Due in More Than One Year	13,595,216	12,319,458	25,914,673
Total Liabilities	<u>17,558,413</u>	<u>17,094,787</u>	<u>34,653,201</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	87,355,752	29,366,340	116,722,091
Restricted for:			
Debt Service	171,451	1,498,303	1,669,753
Landfill Postclosure	-	487,039	487,039
Public Safety	77,004	-	77,004
Capital Construction	301,842	-	301,842
Economic Development	154,329	-	154,329
Transportation	353,554	-	353,554
Other Purposes	4,001	-	4,001
Unrestricted	10,651,929	11,205,522	21,857,451
Total Net Position	<u>\$ 99,069,861</u>	<u>\$ 42,557,204</u>	<u>\$ 141,627,065</u>

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

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**

**Statement of Activities**

For the Year Ended December 31, 2014

	Program Revenues				Net Expense/Revenue and Changes in Net Position		
	Operating				Primary Government		
	Expenses	Charges for Services	Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
Governmental Activities:							
General Government	\$ 4,799,856	\$ 1,005,579	\$ 442	\$ -	\$ (3,793,834)	\$ -	\$ (3,793,834)
Judicial	593,376	79,779	-	-	(513,596)	-	(513,596)
Public Safety	4,043,430	89,425	84,704	-	(3,869,301)	-	(3,869,301)
Physical Environment	387,958	1,277	4,490	100,686	(281,505)	-	(281,505)
Transportation	3,942,553	53,920	478,353	1,484,899	(1,925,382)	-	(1,925,382)
Health and Human Services	272,680	-	-	-	(272,680)	-	(272,680)
Economic Environment	998,365	1,146	-	-	(997,219)	-	(997,219)
Culture and Recreation	592,822	-	7,000	20,000	(565,822)	-	(565,822)
Interest on Long Term Debt	675,007	-	-	-	(675,007)	-	(675,007)
Total Government Activities	16,306,045	1,231,127	574,988	1,605,585	(12,894,345)	-	(12,894,345)
Business-Type Activities:							
Water	1,260,086	1,078,417	-	125,199	-	(56,470)	(56,470)
Sewer	3,278,944	3,502,820	-	242,666	-	466,542	466,542
Storm and Surface Water Management	1,886,197	2,038,148	32,626	127,031	-	311,609	311,609
Building and Development Services	1,911,766	1,196,576	-	-	-	(715,190)	(715,190)
Total Business-Type Activities	8,336,992	7,815,960	32,626	494,896	-	6,491	6,491
<b>Total Primary Government</b>	<b>\$ 24,643,038</b>	<b>\$ 9,047,088</b>	<b>\$ 607,614</b>	<b>\$ 2,100,481</b>	<b>\$ (12,894,345)</b>	<b>\$ 6,491</b>	<b>\$ (12,887,855)</b>
General Revenues:							
Property Taxes Levied for General Purposes					\$ 6,838,430	\$ -	\$ 6,838,430
Property Taxes Levied for Other Purposes					609,563	-	609,563
Sales and Use Taxes					3,813,307	-	3,813,307
Business and Occupation Taxes					4,463,805	-	4,463,805
Excise Taxes					2,349,076	-	2,349,076
Penalties and Interest					29,335	49,269	78,603
Unrestricted Investment Earnings					64,392	49,736	114,129
Grants and Contributions not Restricted to Specific Programs					249,627	-	249,627
Miscellaneous					2,188,166	12,823	2,316,989
Transfers					(697,220)	697,220	-
Total General Revenues, Extraordinary, Special Items, and Transfers					17,939,131	809,048	18,748,179
Change in Net Position					5,044,786	815,539	5,860,325
Prior Period Adjustments					59,171	(500,932)	(441,761)
Net Position - Beginning					93,965,904	42,242,597	136,208,501
Net Position - Ending					\$ 99,069,861	\$ 42,557,204	\$ 141,627,065

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

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**  
**Balance Sheet Statement**  
**Governmental Funds**  
**As of December 31, 2014**

	General	Streets	Real Estate Excise Tax	General Obligation Bonds	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 14,397,615	\$ 107,100	\$ 4,001	\$ 87	\$ 1,216,238	\$ 15,725,041
Receivables - Net	186,755	1,445	-	7,088	90,635	285,924
Inventories	9,233	106,182	-	-	-	115,415
Due From Other Governments	59,171	-	-	-	-	59,171
Unmatured Assessments	-	-	-	-	269,687	269,687
Total Assets	\$ 14,652,775	\$ 214,727	\$ 4,001	\$ 7,175	\$ 1,576,560	\$ 16,455,238
<b>LIABILITIES</b>						
Accounts Payable	\$ 438,296	\$ 39,130	\$ -	\$ -	\$ 91,994	\$ 569,421
Accrued Expenses	297,172	61,719	-	-	-	358,891
Total Liabilities	735,468	100,850	-	-	91,994	928,312
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenues - Property Taxes	154,755	-	-	4,720	-	159,475
Unavailable Revenues - Special Assessments	-	-	-	-	341,749	341,749
Total Deferred Inflows of Resources	154,755	-	-	4,720	341,749	501,224
<b>FUND BALANCES</b>						
Nonspendable	68,404	106,182	-	-	-	174,586
Restricted	330,867	-	4,001	-	727,312	1,062,180
Committed	1,875,079	7,696	-	2,455	381,409	2,266,640
Assigned	-	-	-	-	34,095	34,095
Unassigned	11,488,201	-	-	-	-	11,488,201
Total Fund Balances	13,762,552	113,877	4,001	2,455	1,142,817	15,025,702
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 14,652,775	\$ 214,727	\$ 4,001	\$ 7,175	\$ 1,576,560	\$ 16,455,238

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

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**To the Statement of Net Position**  
**As of December 31, 2014**

Ending fund balance - governmental funds \$ 15,025,702

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 97,499,793

Other Assets are not available to pay current-period expenditures and, therefore, are deferred in the governmental funds. 26,189

**For debt refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources.**

Deferred charge on refunding of debt 417,914

**Other long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the governmental funds.**

Unamortized Debt Issuance Costs 34,030

Accounts Receivable - Earned but Unavailable 2,195,111

**Some of the city's receivables will not be collected soon enough to pay for current-period expenditures and, therefore, are reported as deferred inflows in the governmental funds.**

Deferred Inflows of Resources - Special Assessments 341,749

Deferred Inflows of Resources - Property Taxes 159,475

**Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.**

Accrued expenses and compensated absences (495,093)

Long-term liabilities (16,135,008)

**Net Position of Major Governmental Activities** \$ 99,069,861

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

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the year ended December 31, 2014**

	General	Streets	Real Estate Excise Tax	General Obligation Bond	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Property Taxes	\$ 6,870,693	\$ -	\$ -	\$ 609,563	\$ -	\$ 7,480,256
Other Taxes	7,218,054	753,167	2,354,940	-	536,809	10,862,969
Fees and Fines	111,820	-	-	-	-	111,820
Licenses and Permits	608,016	55,795	-	-	-	663,812
Intergovernmental	302,496	1,029,676	-	-	950,476	2,282,647
Charges for Services	472,394	915	-	-	-	473,309
Interest and Investment Revenue	62,070	-	-	-	2,323	64,392
Other Revenues	92,614	87	-	-	159,248	251,949
Total Revenues	15,738,156	1,839,640	2,354,940	609,563	1,648,855	22,191,154
<b>EXPENDITURES</b>						
Current						
General Government	4,100,672	381,534	-	-	6,601	4,488,808
Judicial	592,302	-	-	-	-	592,302
Public Safety	3,830,799	48,667	-	-	-	3,879,466
Physical Environment	353,169	30,925	-	-	-	384,095
Transportation	9,854	2,280,121	-	-	-	2,289,975
Health and Human Services	272,722	-	-	-	-	272,722
Economic Environment	872,754	-	-	-	127,211	999,966
Culture and Recreation	297,623	3,421	-	-	-	301,044
Debt Service - Principal	158,881	-	-	2,028,520	37,364	2,224,765
Debt Service - Interest	21,598	-	-	657,009	17,028	695,635
Capital Outlay	459,073	140,591	-	-	1,574,584	2,174,248
Total Expenditures	10,969,448	2,885,260	-	2,685,529	1,762,788	18,303,025
Excess/(deficiency) of Revenue over Expenditures	4,768,708	(1,045,620)	2,354,940	(2,075,966)	(113,934)	3,888,129
<b>OTHER FINANCING SOURCES/(USES)</b>						
Disposition of Capital Assets	35,005	130,325	-	-	-	165,330
Transfers In	-	634,310	-	2,073,736	819,063	3,527,109
Transfers Out	(1,505,185)	(118,200)	(2,350,944)	-	(250,000)	(4,224,329)
Total Other Financing Sources/Uses	(1,470,180)	646,435	(2,350,944)	2,073,736	569,063	(531,890)
Net Change in Fund Balance	3,298,529	(399,185)	3,996	(2,230)	455,129	3,356,239
Fund Balances - Beginning	10,404,852	513,062	5	4,685	687,688	11,610,292
Prior Period Adjustments	59,171	-	-	-	-	59,171
Fund Balances - Ending	\$ 13,762,552	\$ 113,877	\$ 4,001	\$ 2,455	\$ 1,142,817	\$ 15,025,702

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

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended December 31, 2014**

Net change in fund balances - Total governmental funds \$ 3,356,239

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

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

Expenditures for capital assets	\$ 2,174,248	
Less current year depreciation	(2,403,971)	
Gain (Loss) on disposition of capital assets	(3,709)	
		(233,432)

Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenues in the funds. (304,723)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which repayments exceeded proceeds. 2,224,765

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. 1,938

Change in Net Position of Governmental Activities	\$ 5,044,786
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The accompanying notes are an integral part of this financial statement.

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**  
**Statement of Net Position**  
**Proprietary Funds**  
**As of December 31, 2014**

	Business-Type Activities - Enterprise Funds					Total
	Water	Sewer	Storm and Surface Water Management	Building and Development Services		
<b>ASSETS</b>						
Current Assets						
Cash and Cash Equivalents	\$ 6,450,986	\$ 4,253,453	\$ 1,135,950	\$ 367,650	\$ 12,208,039	
Receivables - Net	15,457	252,742	251,717	845	520,761	
Due From Other Governments	-	-	67,985	-	67,985	
Inventories	53,591	2,729	12,061	-	68,381	
Long-Term Assets						
Special Assessments Receivable	-	1,771,005	-	-	1,771,005	
Depreciable Capital Assets (Net)	11,870,936	22,124,565	8,887,132	-	42,882,633	
Land	637,436	834,874	324,555	-	1,796,865	
Construction in Progress	8,427	8,427	319,467	-	336,321	
Total Assets	<u>19,036,834</u>	<u>29,247,794</u>	<u>10,998,867</u>	<u>368,495</u>	<u>59,651,991</u>	
<b>LIABILITIES</b>						
Current Liabilities						
Accounts Payable	35,236	66,602	73,764	13,606	189,207	
Accrued Expenses	21,161	91,914	47,501	71,778	232,355	
Unearned Revenue	-	-	-	207,679	207,679	
Current Portion of Long-Term Debt	-	1,088,859	50,703	-	1,139,562	
Long-Term Liabilities						
Compensated Absences	149,056	69,374	40,221	70,375	329,026	
Bonds, Loans, and Other Debt	-	14,012,434	984,524	-	14,996,958	
Total Liabilities	<u>205,454</u>	<u>15,329,183</u>	<u>1,196,713</u>	<u>363,437</u>	<u>17,094,787</u>	
<b>NET POSITION</b>						
Net investment in Capital Assets	12,516,800	7,866,573	8,982,967	-	29,366,340	
Restricted for:						
Debt Service	-	1,498,303	-	-	1,498,303	
Landfill Postclosure	-	-	487,039	-	487,039	
Unrestricted	6,314,581	4,553,736	332,148	5,058	11,205,522	
Total Net Position	<u>\$ 18,831,381</u>	<u>\$ 13,918,611</u>	<u>\$ 9,802,154</u>	<u>\$ 5,058</u>	<u>\$ 42,557,204</u>	

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

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the year ended December 31, 2014**

	Water	Sewer	Storm and Surface Water Management	Building and Development Services	Totals
<b>OPERATING REVENUES</b>					
Charges for Services	\$ 1,078,417	\$ 3,502,820	\$ 2,038,148	\$ 1,196,576	\$ 7,815,960
Total Operating Revenues	1,078,417	3,502,820	2,038,148	1,196,576	7,815,960
<b>OPERATING EXPENSES</b>					
Personal Services	521,305	899,842	990,183	1,535,882	3,947,211
Contractual Services	143,284	248,862	227,216	271,500	890,861
Utilities	102,765	216,837	51,057	1,243	371,902
Repairs and Maintenance	9,958	69,430	5,520	5,156	90,065
Miscellaneous Expense	6,259	9,483	34,542	5,290	55,575
Other Supplies and Expenses	160,796	552,460	247,014	30,060	990,329
Insurance Claims and Expenses	19,564	35,914	38,737	61,899	156,114
Depreciation	296,156	1,038,099	289,174	737	1,624,165
Total Operating Expenses	1,260,086	3,070,927	1,883,443	1,911,766	8,126,222
Operating Income (Loss)	(181,669)	431,892	154,705	(715,190)	(310,262)
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Interest and Investment Revenue	27,092	17,874	4,771	-	49,736
Miscellaneous Revenue	8,314	56,748	136,482	206	201,749
Interest Expense	-	(208,016)	(2,753)	-	(210,770)
Total Non-Operating Revenues (Expenses)	35,405	(133,395)	138,499	206	40,716
Net income/(loss) before contributions and transfers	(146,264)	298,498	293,204	(714,984)	(269,546)
Capital Contributions	125,199	242,666	20,000	-	387,865
Transfers In	2,500	-	-	694,720	697,220
Change in Net Position	(18,565)	541,164	313,204	(20,264)	815,539
Net Position - Beginning	18,856,206	13,377,448	9,983,622	25,322	42,242,597
Prior Period Adjustments	(6,260)	-	(494,671)	-	(500,932)
Total Net Position - Ending	\$ 18,831,381	\$ 13,918,611	\$ 9,802,154	\$ 5,058	\$ 42,557,204

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



**CITY OF BAINBRIDGE ISLAND, WASHINGTON**

**Statement of Cash Flows**

**Proprietary Funds**

**For the Year Ended December 31, 2014**

Page 1 of 2

	Water	Sewer	Storm and Surface Water Management	Building and Development Services	Total
<b>Cash Flows from Operating Activities</b>					
Receipts from Customers	\$1,115,615	\$3,591,758	\$1,915,485	\$1,196,576	\$7,819,435
Payments to Suppliers	(423,335)	(1,194,971)	(642,985)	(390,287)	(2,651,578)
Payments to Employees	(520,237)	(888,428)	(988,909)	(1,535,774)	(3,933,348)
Net Cash Provided (Used) by Operating Activities	172,044	1,508,359	283,592	(729,485)	1,234,509
<b>Cash Flows from Non-Capital Financing Activities</b>					
Transfers from Other Funds	2,500	-	-	694,720	697,220
Non Capital Grant Proceeds	-	-	139,658	-	139,658
Net Cash Provided (Used) by Non-Capital Financing Activities	2,500	-	139,658	694,720	836,878
<b>Cash Flows from Capital and Related Financing Activities</b>					
Capital Contributions	119,739	242,666	-	-	362,405
Special Assessment Receipts	-	330,784	-	-	330,784
Purchases of Capital Assets	(8,427)	(2,811,006)	(587,658)	-	(3,407,092)
Proceeds from Long-Term Debt	-	2,505,708	-	-	2,505,708
Principal Paid on Capital Debt	-	(1,174,653)	(50,703)	-	(1,225,356)
Interest Paid on Capital Debt	-	(216,900)	(2,994)	-	(219,895)
Reduction in Long-Term Landfill Post-Closure Care Costs	-	-	(7,632)	-	(7,632)
Other Receipts / Payments	8,314	7,536	(3,176)	(3,829)	8,845
Net Cash Provided (Used) by Capital and Related Financing Activities	119,626	(1,115,866)	(652,163)	(3,829)	(1,652,233)
<b>Cash Flows from Investing Activities</b>					
Interest and Dividends	27,092	17,874	4,771	-	49,736
Net Cash Provided (Used) by Investing Activities	27,092	17,874	4,771	-	49,736
Net Increase/(Decrease) in Cash and Cash Equivalents	321,261	410,367	(224,143)	(38,595)	468,890
Balances - Beginning of the Year	6,129,725	3,843,086	1,360,093	406,245	11,739,149
Balances - End of the Year	\$6,450,986	\$4,253,453	\$1,135,950	\$367,650	\$12,208,039

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

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**

**Statement of Cash Flows**

**Proprietary Funds**

**For the Year Ended December 31, 2014**

Page 2 of 2  
(Continued)

	Water	Sewer	Storm and Surface Water Management	Building and Development Services	Total
<hr/>					
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)					
Operating Income/(Loss)	\$ (181,669)	\$ 431,892	\$ 154,705	\$ (715,190)	\$ (310,262)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities					
Depreciation	296,156	1,038,099	289,174	737	1,624,165
Change in Assets and Liabilities					
Receivables - Net	37,198	88,938	(122,662)	-	3,474
Inventories	686	126	1,523	-	2,336
Accounts Payable	18,605	(62,111)	(40,421)	(15,140)	(99,068)
Accrued Expenses	2,322	13,753	3,803	3,819	23,698
Compensated Absences	(1,254)	(2,340)	(2,529)	(3,712)	(9,834)
Net Cash Provided by Operating Activities	<u>\$ 172,044</u>	<u>\$ 1,508,359</u>	<u>\$ 283,592</u>		<u>\$ 1,234,509</u>

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

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**

**Statement of Net Position**

**Fiduciary Funds**

**As of December 31, 2014**

ASSETS	<u>Agency Funds</u>
Cash and Cash Equivalents	\$ 248,577
Receivables - Net	400
Total Assets	<u>\$ 248,977</u>
LIABILITIES	
Custodial Accounts Payable	<u>\$ 248,977</u>
Total Liabilities	<u>\$ 248,977</u>

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

**NOTES TO THE FINANCIAL STATEMENTS****For the year ended December 31, 2014****NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements and underlying accounting policies of the City of Bainbridge Island (City) conform to Generally Accepted Accounting Principles (GAAP) as applied to governmental units in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The City's significant accounting policies are described below.

**A. Reporting Entity**

The City of Bainbridge Island was incorporated on September 18, 1947, and operates under the laws of the State of Washington applicable to a non-charter code city with a Council-Manager form of government. The seven part-time council members are elected to four-year staggered 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 the following major types of services: police, water supply/treatment/distribution, sewage collection and treatment, storm water (drainage) collection, street maintenance and construction, planning and zoning, permits and inspections, some parks, boat docks, judicial and general administration. Other local governments provide public education, fire suppression, library and most park services.

The accompanying financial statements represent the activities of the City and the component unit for which it is financially accountable. The City is considered financially accountable for a component unit if it appoints a voting majority of the governing body and, 1) is able to impose its will on the organization by significantly influencing the programs, projects, activities or levels of service; or 2) there is a potential for the organization to provide financial benefits to, or impose financial burdens on, the City. Blended component units are, in substance, part of the primary government's operations due to the closely linked nature of their relationship, even though they are legally separate entities.

**Blended Component Unit**

The City has one component unit, the Bainbridge Island Transportation Benefit District (TBD), presented as a blended component unit. The TBD, established in August 2012, was created through City Ordinance No. 2012-14 under the authority of the Revised Code of Washington (RCW) 35.21.225. The TBD's boundaries are the same as the City's and its governing board is comprised of the City Council members. The TBD is funded by a \$20 vehicle registration fee used for transportation improvements as defined by RCW 36.73.015. The TBD's sole purpose is to finance transportation improvements within its boundaries and although it is a legally separate entity, the operations of the TBD are so closely related to those of the City that it is reported as if it were part of the City. The TBD is reported as a non-major special revenue fund in the City's financial statements. The TBD issues a separate financial report which may be obtained by contacting the City of Bainbridge Island Finance Department at 280 Madison Ave. N., Bainbridge Island, WA 98110-1812 or emailing [finance@bainbridgewa.gov](mailto:finance@bainbridgewa.gov).

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City. Generally, the effect of interfund activity has been removed from these statements to avoid double counting of internal activity. 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 net position* presents the City's year-end balances in non-fiduciary assets, deferred outflows of resources and liabilities with the difference reported as net position. Net position is reported in three categories:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation and any outstanding debt attributable to those assets.

*Restricted net position* consists of restricted assets reduced by any liabilities and deferred outflow of resources related to those assets. Net position is restricted when constraints are placed on its use (1) by external parties such as creditors, grantors or laws of other governments or (2) by the City's own enabling legislation or constitutional provisions.

*Unrestricted net position* consists of the residual amount which does not meet the definition of the two preceding categories.

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. 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 governmental and enterprise funds are reported in separate columns in the fund financial statements.

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

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 and legally due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's primary ongoing activity. The principal operating revenues of the City's proprietary funds are user fees for 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.

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, it is City policy to consider revenues available if they are collected within 60 days of the end of the current fiscal period. Property taxes, sales taxes, business and occupation taxes, utility taxes, excise taxes, licenses and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized in the current fiscal period. Expenditure-driven grants are recognized as revenue, within the 60-day window, when the qualifying expenditures have been incurred and all eligibility requirements have been met. Only that portion of special assessments due within the current fiscal period is considered susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures in the governmental fund financial statements are generally recorded when a liability is incurred, as under accrual accounting. However, certain expenditures, such as debt service, compensated absences and claims and judgments, are recorded only when payment is due.

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

**General Fund**

The general fund is the primary operating fund of the City. It accounts for all financial resources of the general government except those required to be accounted for in another fund. Major revenue sources are property taxes, sales taxes and business and occupation taxes. Major expenditures are for administration and public safety.

**Street Fund**

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

**Real Estate Excise Tax Fund**

This special revenue fund accounts for revenue from real estate excise taxes. These resources are used primarily for street maintenance and construction and payments on related debt service.

**General Obligation Bond Fund**

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

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

**Water Fund**

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

**Sewer Fund**

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

**Storm & Surface Water Management (SSWM) Fund**

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

**Building & Development Services Fund**

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

The City maintains one **Fiduciary Fund**:

This fund is an agency fund, is custodial in nature (assets always equal liabilities) and does not involve the measurement of results of operations. Within this fund are a number of sub-funds representing monies on which the City has either no claim or has a junior claim to a third party. Included are construction retainage accounts, performance bonds and money held in transit to Kitsap County or the State of Washington.

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. In addition, in general when resources are available that may be spent from committed, assigned or unassigned fund balance it is the City's policy to use the most restrictive category first.

**D. Use of Estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results may differ from those estimates and assumptions.

## **E. Budgetary Information**

### **1. Scope of Budget**

In accordance with RCW 35A.34 budgets are adopted for all operating funds. Expenditures are limited to total current year fund budgets, any long-term debt proceeds and expenditures required for emergencies. All unencumbered budget amounts lapse at year-end and must be reauthorized by the City Council. All budgets are prepared using the modified accrual basis of accounting.

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

The City Council also annually approves a capital improvement plan (CIP). The CIP is a six-year plan for capital expenditures and related funding. It is revised and extended annually. The City Council adopts the CIP as a planning document but does not appropriate the multi-year expenditures identified in the CIP. The current year CIP expenditures are legally authorized through the annual fund budgets.

Proprietary fund budgets are for management purposes only and as such are not required by GAAP to be presented in these financial statements.

### **2. Amending the Budget**

Under City law, the City Manager may authorize transfers of budgetary spending within any fund. However, any revisions that transfer appropriations between funds, increase any fund's total expenditures, increase any capital construction project's total budget, or affect the number of authorized employee positions 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.

## **F. 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, 2014, the City was holding \$28,181,657 in cash and cash equivalents which included \$15,725,041 in the governmental funds, \$12,208,039 in the proprietary funds \$248,577 in the fiduciary funds.

It is the City's policy to invest temporary cash surpluses. At December 31, 2014, the City was holding \$27,027,294 in short-term investments. This amount is classified on the balance sheet with cash and cash equivalents. Interest on these investments is distributed to various funds proportional to their cash balances.

### **2. Receivables**

Property taxes unpaid at year-end are recorded as a receivable. Property tax revenue not expected to be collected within 60 days of year-end is reported as unavailable revenue in the deferred inflows section of the fund financial statements. For property taxes collectible in 2014 the City's levy for general governmental services was \$1.31 per \$1,000 on assessed valuation of \$5,232,391,419 for a total of \$6,859,797. 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. Due to the property foreclosure provision in state law, no allowance for uncollectible amounts is made.

Other types of taxes receivable are not recognized on the fund financial statements because, although they are often measurable, the City cannot tell when they might be available. These taxes receivable are recognized together with the related revenue adjustments on the government-wide financial statements.

As of December 31, 2014 and 2013, the City had total taxes receivable of \$1,430,832 and \$1,710,967 respectively. The year-end 2013 amount includes a one-time real estate excise tax (REET) receivable due from the Kitsap County Treasurer's Office because of a County software misallocation of REET.

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. Assessment revenue not expected to be collected within 60 days of year-end is reported as unavailable revenue in the deferred inflows section of the fund financial statements. Long-term assessments receivable in the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2014 and 2013, the City had \$31,425 and \$54,559, respectively, in delinquent special assessments receivable. Because special assessments are secured by liens against related properties, no allowance for uncollectible amounts is made.

For Municipal Court receivables the City recognizes only those fines or forfeits that are on a court-ordered time payment plan or that have been sent to collection. This is partly because amounts that have been levied are still subject to adjudication and possible commutation and because the State's software system used by the City converts the amounts owed to fee amounts set by the State. The receivable recognized for 2014 is \$1,515,608 (\$1,310,849 considered uncollectible) compared to \$1,516,972 (\$1,280,173 considered uncollectible) for 2013.

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. The City also has reimbursable grants and other receivables due from the State and Federal governments. Those amounts totaled \$749,043 and \$1,046,891 for fiscal years 2014 and 2013, respectively.

### **4. Inventories**

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

### **5. Capital Assets**

Capital assets 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.

A full year's depreciation is taken in the year capital assets are acquired or when assets under construction are substantially complete and in service. For constructed assets, all associated costs necessary to bring such assets to the condition and location necessary for their intended use are capitalized. The amount of construction period interest capitalized depends on materiality and the specific project's circumstances. During 2014 no interest was capitalized.



Land, land rights, construction-in-progress and intangible assets are not depreciated. 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	5 to 10
Police Vehicles	5
Buildings & Improvements	20 to 40
Roads – Unpaved and Paved	2 and 25
Sewage Treatment Plant	20
Water & Sewer Mains	66
Other Utility Infrastructure	10 to 20

For further detail see Note No. 5 – Capital Assets.

## 6. Deferred Outflows of Resources

In addition to assets, the statements of net position's governmental activities column reports a separate section for deferred outflows of resources. This separate financial statement element represents the consumption of net position applicable to future reporting periods and will not be expensed until that time. The City has reported a deferred charge on debt refunding as a deferred outflow. A deferred charge on debt refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded debt or the refunding debt.

## 7. Compensated Absences

Compensated absences are absences from work for which employees will be paid. They consist of vacation, sick leave, accrued compensating time off for overtime hours worked, floating holidays and time spent on standby. Only compensated absences for which the employee may be paid upon separation are accrued at year-end.

Vacation pay may be accumulated up to a maximum of 320 hours and is payable upon termination, resignation, retirement or death. Compensating time off may be accumulated up to a maximum of 160 hours (120 for law enforcement officers) and may be taken at any time or paid out at the employee's request. Standby time represents compensating time off for employees who are required to be available on standby during non-working hours and may be taken at any time or paid out at the employee's request. Floating holidays represent holidays worked and subsequently accrued by law enforcement officers that may be taken at any time, paid out at the officer's request or paid upon separation.

Sick leave may accumulate up to 1,040 hours. Except as noted below for law enforcement officers, upon separation from City employment outstanding sick leave is not paid to the employee. Accumulations of over 1,040 hours are paid down annually at ½ the employee's current rate of pay. In addition, law enforcement officers, upon retirement, are paid ¼ of their sick leave balance at their 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, 2014 and 2013, is as follows:

	2014	2013
Vacation	\$584,347	\$595,459
Compensating Time	68,622	73,245
Standby Time	31,934	25,950
Floating Holidays	50,998	70,633
<b>Total</b>	<b>\$735,901</b>	<b>\$765,287</b>

**8. Long-Term Obligations**

Liabilities for long-term obligations are recorded in the government-wide and proprietary statements of net position. Bonds payable are reported net of applicable bond premiums or discounts. For governmental fund financial statements bond issuance costs are expended at the time of issuance and bond proceeds are reported as other financing sources. For further details see Note No. 8 – Long-Term Debt.

**9. Deferred Inflows of Resources**

In addition to liabilities, the governmental funds balance sheet statement reports a separate section for deferred inflows of resources. This separate financial statement element represents the acquisition of net position applicable to future reporting periods and, therefore, is not susceptible to accrual as revenue in the current period. When the receivable amounts are collected in future periods, the deferred inflow account is reduced and the corresponding revenue is recorded. For amounts not received within 60 days of year-end, the City has reported delinquent property taxes as deferred inflows in the General Fund and the Bond Fund and special assessments as deferred inflows in the LID Bond Fund.

**10. Fund Balance**

**Categories of Fund Balance**

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

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

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

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

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

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

Fund balance constraints as listed in aggregate on the governmental funds balance sheet statement at December 31, 2014, were as follows:

	General Fund	Street Fund	Real Estate Excise Tax Fund	GO Bond Fund	Other Governmental Funds	Total Governmental Funds
<b>Nonspendable:</b>						
Inventory	\$ 9,233	\$ 106,182	\$ -	\$ -	\$ -	\$ 115,415
Long-term Receivables	59,171	-	-	-	-	59,171
<b>Total Nonspendable</b>	<b>\$ 68,404</b>	<b>\$ 106,182</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 174,586</b>

<b>Restricted:</b>						
Police Investigations	\$ 30,938	\$ -	\$ -	\$ -	\$ -	\$ 30,938
Police Marine	46,066	-	-	-	-	46,066
PEG Capital	253,864	-	-	-	-	253,864
Real Estate Excise Tax	-	-	4,001	-	-	4,001
Hotel/Motel Tax	-	-	-	-	154,329	154,329
Transportation Benefit District	-	-	-	-	353,554	353,554
LID Collections	-	-	-	-	171,451	171,451
LTGO Bond Proceeds	-	-	-	-	15,502	15,502
LID Bond Proceeds	-	-	-	-	32,477	32,477
<b>Total Restricted</b>	<b>\$ 330,867</b>	<b>\$ -</b>	<b>\$ 4,001</b>	<b>\$ -</b>	<b>\$ 727,312</b>	<b>\$ 1,062,180</b>
<b>Committed:</b>						
Capital Impr. Opportunity Reserve	\$ 1,741,517	\$ -	\$ -	\$ -	\$ -	\$ 1,741,517
Public Art	133,552	-	-	-	-	133,552
Street Fund	-	7,696	-	-	-	7,696
Affordable Housing	10	-	-	-	-	10
Floor Area Ratio - Public Amenities	-	-	-	-	13,925	13,925
Floor Area Ratio - Agriculture	-	-	-	-	79,551	79,551
GO Bond Fund	-	-	-	2,455	-	2,455
Construction Fund	-	-	-	-	287,933	287,933
<b>Total Committed</b>	<b>\$ 1,875,080</b>	<b>\$ 7,696</b>	<b>\$ -</b>	<b>\$ 2,455</b>	<b>\$ 381,409</b>	<b>\$ 2,266,640</b>
<b>Assigned:</b>						
Construction Fund	\$ -	\$ -	\$ -	\$ -	\$ 34,095	\$ 34,095
<b>Total Assigned</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 34,095</b>	<b>\$ 34,095</b>
<b>Unassigned:</b>						
General Fund	\$ 11,488,201	\$ -	\$ -	\$ -	\$ -	\$ 11,488,201
<b>Total Unassigned</b>	<b>\$ 11,488,201</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,488,201</b>
<b>Total Fund Balance</b>	<b>\$ 13,762,552</b>	<b>\$ 113,877</b>	<b>\$ 4,001</b>	<b>\$ 2,455</b>	<b>\$ 1,142,817</b>	<b>\$ 15,025,702</b>

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 annual budget appropriations and has a balance of \$1,020,446 at December 31, 2014. 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 losses caused by fire, flood, explosion, storm, earthquake, terrorism or similar incident.
- Immediate preservation of order or public health, or restoration of public property which has been destroyed.

- Payment of claims for personal injuries or property damage that are not covered by insurance.
- 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 \$722,000 at December 31, 2014. 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 these two general fund stabilization arrangements set up as the emergency and contingency reserves, the City Council adopted, via resolution, a general fund minimum fund balance policy. This was defined as the excess of current assets over current liabilities that are unreserved, undesignated and unrestricted. For December 31, 2014 and 2013, the City Council specified goal was \$3,000,000. Unassigned general fund balance at December 31, 2014 and 2013, was \$11,488,201 and \$7,994,719, or \$9,745,755 and \$6,472,719 after emergency and contingency reserves.

## **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**

All surplus cash is invested in accordance with an investment policy approved by the City Council. It is the City's policy to pool all available cash for investment purposes that isn't required to be kept separate. Washington State law limits the City's investment vehicles. Allowable investments include U.S. government obligations, state and local government obligations, bankers' acceptances and deposits in Washington State financial institutions. At year-end 2014 all city funds were invested in short-term cash equivalent investment in the Washington State Treasurer's Local Government Investment Pool (LGIP), the Kitsap County Treasurer's Investment Pool (KCTIP) or Umpqua Bank's Government Investment Pool (UBGIP). These funds are marked to market monthly by those entities and the City's position in the pools is the same as the value of the shares. All of these pools are non-rated 2a7-like pools.

The LGIP is managed and operated solely by the Washington State Treasurer's Office. The State Treasurer created an LGIP Advisory Committee to provide advice on the pool's operation. The Advisory Committee includes 12 members selected from the pool's active participants. Eight members are appointed by the participants and four by the State Treasurer. The pool is not rated by financial rating agencies.

The KCTIP is managed and operated solely by the Kitsap County Treasurer's Office and is not registered with the SEC. It includes participating funds of the County, from the local governmental entities where the County Treasurer serves as ex-officio treasurer and from cities located within the county. Participation in the pool is voluntary. The pool's investments are those allowed by the County Investment Policy and include savings accounts, CD's and securities. Pool oversight comes from the Kitsap County Finance Committee. The committee consists of the County Treasurer, the County Auditor and the Chair of the Board of County Commissioners. The committee approves the KCTIP investment policy.

The UBGIP is managed and operated by Umpqua Bank as an investment vehicle solely for local governments in Washington State. It is FDIC insured and 100% collateralized through the Washington State Public Deposit Protection Commission.

On the City's balance sheet, these pool investments are considered cash equivalents because they can be withdrawn with one days notice. 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). At December 31, 2014, the City held the following investments and cash deposits:

Short-Term Investment held in the Washington State Treasurer's Investment Pool	\$ 1,770,695
Short-Term Investment held in the Kitsap County Treasurer's Investment Pool	23,515,082
Short-Term Investment held in Umpqua Bank's Governmental Investment Pool	1,741,517
<b>Total Investments</b>	<b>\$ 27,027,294</b>
Cash deposits held by the Kitsap County Treasurer	29,486
Cash deposits at Umpqua Bank	1,124,877
<b>Total cash and cash equivalents as reported on the financial statements</b>	<b>\$28,181,657</b>

The City mitigates investment risk by investing only in the Washington state or Kitsap county investment pools or in a pool collateralized by the Washington State Public Deposit Protection Commission.

When not investing in pools, it is the City's policy to require investment instrument safekeeping with the trust department of the investment firm or bank, or a third party custodian, and that all investment transactions are to be evidenced by safekeeping receipts.

#### **NOTE 4 – PROPERTY TAXES**

Under state law, the City may levy up to \$3.60 per \$1,000 of assessed property valuation for general governmental services, however, that amount is reduced by the Kitsap Regional Library and Bainbridge Island Fire District levies. The Library District may levy up to \$.50 and the Fire District up to \$1.50 per \$1,000 of assessed valuation resulting in a potential City levy limit of \$1.60 per \$1,000. The Library and Fire District's actual 2014 levy rates were \$.42 and \$.92, respectively.

In addition to the preceding limit, RCW 84.55.010 also limits the growth of regular property taxes to the lesser of one percent per year or the increase in the Implicit Price Deflator, unless a greater amount is approved by a simple majority of the voters. If assessed valuations increase by more than one percent the levy rate is reduced. Amounts above the limit are allowed for increases in the assessed value of new construction, improvements to property and state-assessed property.

A secondary limitation on property tax increases is imposed by article seven of the Washington State Constitution. This article limits the total regular property taxes to one percent of assessed valuation or \$10 per \$1,000 of assessed value. If the combined taxes of all districts exceed this amount, each levy is proportionally reduced until the total is at or below the one percent limit.

The Kitsap County Assessor assesses all property in the county and the Kitsap County Treasurer, acting as the city's agent, collects property taxes. Collections are distributed after the end of each month. Taxes are levied and become an enforceable lien on January 1 of each year and tax statements are mailed in mid-February. The first of two equal installments is due April 30 and the second October 31. By May 31 of each year the assessed value for the next year's levy is established at 100% of market value.

#### **NOTE 5 – CAPITAL ASSETS**

##### **A. Capital Assets**

Capital asset activity for the year ended December 31, 2014, was as follows:

Governmental Activities	Beginning Balance 01/01/2014	Increases	Decreases	Ending Balance 12/31/2014
Capital Assets not depreciated:				
Land	\$ 63,582,851	\$ 67,285	\$ (16,388)	\$ 63,633,748
Construction In Progress	199,097	853,819	(8,218)	1,044,698
Development Rights (Intangible)	880,000	-	-	880,000
<b>Total Capital Assets not depreciated</b>	<b>\$ 64,661,949</b>	<b>\$ 921,104</b>	<b>\$ (24,606)</b>	<b>\$ 65,558,447</b>
Capital Assets, Depreciable:				
Buildings	\$ 16,364,451	\$ -	\$ -	\$ 16,364,451
Machinery and Equipment	6,387,065	312,280	(253,092)	6,446,253
Infrastructure	37,873,537	1,103,574	-	38,977,111
<b>Total Capital Assets, depreciable</b>	<b>\$ 60,625,053</b>	<b>\$ 1,415,854</b>	<b>\$ (253,092)</b>	<b>\$ 61,787,815</b>
Less Accumulated Depreciation for:				
Buildings	\$ (5,837,856)	\$ (431,030)	\$ -	(6,268,886)
Machinery and Equipment	(5,495,320)	(261,201)	202,151	(5,554,370)
Infrastructure	(16,312,110)	(1,711,104)	-	(18,023,214)
<b>Total Accumulated Depreciation</b>	<b>\$ (27,645,286)</b>	<b>\$ (2,403,335)</b>	<b>\$ 202,151</b>	<b>\$ (29,846,470)</b>
<b>Total Capital Assets, depreciable, net</b>	<b>\$ 32,979,767</b>	<b>\$ (987,481)</b>	<b>\$ (50,941)</b>	<b>\$ 31,941,345</b>
<b>Total Governmental Activities Capital Assets, net</b>	<b>\$ 97,641,715</b>	<b>\$ (66,377)</b>	<b>\$ (75,547)</b>	<b>\$ 97,499,791</b>

Business-Type Activities	Beginning Balance 01/01/2014	Increases	Decreases	Ending Balance 12/31/2014
Capital Assets not depreciated:				
Land	\$ 1,796,865	\$ -	\$ -	\$ 1,796,865
Construction In Progress	584,275	74,314	(322,268)	336,321
<b>Total Capital Assets not depreciated</b>	<b>\$ 2,381,141</b>	<b>\$ 74,314</b>	<b>\$ (322,268)</b>	<b>\$ 2,133,187</b>
Capital Assets, depreciable:				
Buildings	\$ 40,619	\$ -	\$ -	\$ 40,619
Computer Software	32,365	-	-	32,365
Machinery and Equipment	1,727,786	74,314	(233,095)	1,569,005
Infrastructure	57,625,550	3,674,245	-	61,299,795
<b>Total Capital Assets, depreciable</b>	<b>\$ 59,426,320</b>	<b>\$ 3,748,559</b>	<b>\$ (233,095)</b>	<b>\$ 62,941,784</b>
Less accumulated depreciation for:				
Buildings	\$ (10,659)	\$ (585)	\$ -	\$ (11,244)
Computer Software	(32,365)	-	-	(32,365)
Machinery and Equipment	(1,726,379)	(57,555)	158,670	(1,625,264)
Infrastructure	(16,824,253)	(1,566,025)	-	(18,390,278)
<b>Total Accumulated Depreciation</b>	<b>\$ (18,593,656)</b>	<b>\$ (1,624,165)</b>	<b>\$ 158,670</b>	<b>\$ (20,059,151)</b>
<b>Total Capital Assets, depreciable, net</b>	<b>\$ 40,832,664</b>	<b>\$ 2,124,394</b>	<b>\$ (74,425)</b>	<b>\$ 42,882,633</b>

<b>Total Business-Type Activities Capital Assets, net</b>	<b>\$ 43,213,805</b>	<b>\$ 2,198,708</b>	<b>\$ (396,693)</b>	<b>\$ 45,015,820</b>

2014 depreciation expense was charged to the functions of the city as follows:

<b>Governmental Activities</b>	<b>2014</b>	<b>2013</b>
General Government	\$ 316,591	\$ 315,403
Judicial	2,218	-
Public Safety	146,196	116,072
Physical Environment	4,324	4,324
Transportation	1,668,767	1,524,676
Economic Environment	-	-
Culture and Recreation	265,876	268,077
<b>Total Depreciation - Governmental Activities</b>	<b>\$ 2,403,972</b>	<b>\$ 2,228,552</b>

<b>Business-Type Activities</b>	<b>2014</b>	<b>2013</b>
Water Utility	\$ 296,156	\$ 295,765
Sewer Utility	1,038,099	939,200
Storm and Surface Water Management Utility	289,174	194,395
Building and Development Services	737	737
<b>Total Depreciation - Business-Type Activities</b>	<b>\$ 1,624,166</b>	<b>\$ 1,430,096</b>

## B. Construction Commitments

The City had a number of construction projects in progress at December 31, 2014. The listing below represents major projects underway at year-end and their remaining contractual commitments.

Traffic Impact Study - needs assessment	\$ 121,785
Sound to Olympics Trail - design services	\$ 317,235
Cave Avenue and Knechtel Way overlay	\$ 150,263
Olympic Drive non-motorized improvements - design service	\$ 299,145
<b>Total Construction Commitments at December 31, 2014</b>	<b>\$ 888,428</b>

## NOTE 6 – PENSION PLANS

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



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

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

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

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

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

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is two percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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 three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the



member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

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

PERS Plan 2 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

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

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

credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by three 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.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of five percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option. PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one 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 three percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

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

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

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.

**There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:**

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Active Plan Members Non-vested	101,191
<b>Total</b>	<b>368,272</b>

## Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the

defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

- \* The employer rates include the employer administrative expense fee currently set at 0.18%.
- \*\* The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% 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 4.92% 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*	11.71%	11.71%	11.71%**
Employer-Local Government*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Government	12.26%	12.30%	7.50%***

- \* The employer rates include the employer administrative expense fee currently set at 0.18%.
- \*\* 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
2014	\$ 9,622	\$ 455,588	\$ 136,747
2013	\$ 9,223	\$ 387,510	\$ 102,809
2012	\$ 16,468	\$ 368,868	\$ 102,115

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

**Plan Description**

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

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

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

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

<b>Term of Service</b>	<b>Percent of Final Average Salary</b>
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 there is an eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

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

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

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

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

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

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

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

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

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

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

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

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, 2013:

Retirees and Beneficiaries Receiving Benefits	10,511
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	699
Active Plan Members Vested	16,830
Active Plan Members Non-vested	1,600
<b>Total</b>	<b>29,640</b>

## Funding Policy

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

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding

situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For DRS' fiscal year 2013, the state contributed \$54.2 million to LEOFF Plan 2.

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

The required contribution rates expressed as a percentage of current-year covered payrolls, as of December 31, 2014, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	5.23%**
Employee	0.00%	8.41%
State	N/A	3.36%

\*The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* The employer rate for ports and universities is 8.59%.

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
2014	\$ 0	\$ 93,106
2013	\$ 0	\$ 86,772
2012	\$ 0	\$ 88,186

## NOTE 7 – RISK MANAGEMENT

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 175 Members.

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

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

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

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



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

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

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

During the three years ending December 31, 2014, four payments were made that were not fully covered by insurance. \$5,408 was paid in March 2013 to settle a boundary line dispute. \$5,000 was paid in November 2012 to settle a claim regarding seasonal flooding on a homeowner's property. \$1,369 was paid in April 2012 to settle a property line dispute. \$18,000 was paid in January 2012 to settle a claim regarding work done without a building permit and the needed corrective actions.

## NOTE 8 – LONG-TERM LIABILITIES

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 (LID) special assessment bond outstanding and one of its Washington State Public Works Trust Fund (PWTF) loans is designated as revenue debt and another as LID debt. All three of these debt instruments have pledged specific revenue for the repayment of the related debt although there are no pledged debt coverage requirements. In addition, all three debt instruments have an additional general pledge of City revenues in the event that insufficient resources are available to fully repay the debt. See Note I.F.2 for information on delinquent LID special assessment receivables.

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 a note that was entered into for the purchase of agricultural land. This note is considered an obligation of the general government and is being repaid from general government revenue sources.

In November 2014 the City received \$2,505,708 in PWTF loan proceeds to fund most of the Eagle Harbor sewer beach mains reconstruction.

Long-Term debt reported on the statements of net position at December 31, 2014, is comprised of the following:

Type of Debt or Related Item	Governmental Activities	Business-Type Activities
Unlimited Tax General Obligation Bonds	\$ 4,615,000	\$ -
Limited Tax General Obligation Bonds	9,835,000	4,250,000
Limited Tax General Obligation Long-Term Debt	515,165	5,867,703
Revenue Obligation Long-Term Debt	-	2,400,097
LID Special Assessment Debt with Governmental Commitment	336,273	2,975,000
<b>Long-Term Debt analyzed in this Note below</b>	<b>15,301,438</b>	<b>15,492,800</b>

<b>Other Components of Debt:</b>		
Other Post Employment Benefits - See Note No. 14	212,383	-
Compensated Absences - See Note No. I.F.7	406,875	329,026
Landfill Post-Closure Care Costs - See Note No. 9	-	487,039
Long-term Washington State EECBG Grant Obligation - See Note No. 8.B	100,000	-
Unamortized Bond Discounts and Premiums	521,189	156,681
<b>Total General Long-Term Debt reported on the Statement of Net Position</b>	<b>\$ 16,541,885</b>	<b>\$ 16,465,546</b>

General Obligation Bonds currently outstanding are as follows:

<b>Purpose/Original Issue Amount</b>	<b>Interest Rates</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
Open Space Acquisitions/\$5,230,000	2.00 - 4.125%	\$ 4,615,000	\$ -
Roads, Open Space and Parks/\$5,890,000	3.25 - 4.70%	4,420,000	-
Refinance City Hall and Facility Construction Bonds/\$12,630,000	3.00 - 5.00%	5,415,000	-
Wastewater Treatment Plant Upgrade Bonds/\$5,700,000	2.00 - 4.00%	-	4,250,000
<b>Total General Obligation Bonds</b>		<b>\$ 14,450,000</b>	<b>\$ 4,250,000</b>

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

<b>Year Ending</b>	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2015	\$ 2,045,000	\$ 578,340	\$ 200,000	\$ 163,850
2016	2,110,000	507,606	205,000	157,850
2017	2,030,000	422,050	210,000	151,700
2018	1,785,000	338,665	220,000	145,400
2019	1,190,000	264,945	230,000	136,600
2020 - 2024	3,960,000	724,725	1,275,000	539,000
2025 - 2029	1,330,000	116,648	1,560,000	261,800
2030 - 2034	-	-	350,000	14,000
<b>Total</b>	<b>\$ 14,450,000</b>	<b>\$ 2,952,979</b>	<b>\$ 4,250,000</b>	<b>\$ 1,570,200</b>

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

<b>Purpose/Original Issue Amount</b>	<b>Interest Rates</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
Purchase 15 acres of agricultural land/\$549,000	7.60%	\$ 149,000	\$ -
PWTF Loan for Street Improvements/\$594,000	1.00%	34,857	-
PWTF Loan for Emergency Storm Street Repairs/\$449,632	3.00%	331,308	-
PWTF Loan Storm Drain Decant Facility	0.50%	-	95,451



Design/\$179,025			
PWTF Loan Sewage Treatment Plant Design/\$389,215	0.50%	-	210,875
PWTF Loan Storm Drain Decant Facility Constr./\$782,000	0.50%	-	452,736
PWTF Loan Sewage Treatment Plant Constr. Loan #1/\$3,618,000	0.50%	-	2,316,856
PWTF Loan Eagle Harbor Sewer Beach Mains Design/\$383,542	0.50%	-	286,077
PWTF Loan Eagle Harbor Sewer Beach Mains Constr./\$4,167,089	0.50%	-	2,505,708
<b>Total Other General Obligation Debt</b>		<b>\$ 515,165</b>	<b>\$ 5,867,703</b>

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

Year Ending	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 158,520	\$ 20,784	\$ 442,054	\$ 21,917
2016	72,665	12,953	442,054	27,128
2017	23,665	8,519	442,054	24,918
2018	23,665	7,809	442,054	22,708
2019	23,665	7,099	442,054	20,497
2020 - 2024	118,324	24,848	2,210,269	69,333
2025 - 2029	94,660	7,099	1,029,547	23,162
2030 - 2034	-	-	417,618	4,176
<b>Total</b>	<b>\$ 515,165</b>	<b>\$ 89,113</b>	<b>\$ 5,867,703</b>	<b>\$ 213,839</b>

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

Purpose/Original Issue Amount	Interest Rates	Governmental Activities	Business-Type Activities
PWTF Loan Sewage Treatment Plant Constr. Loan #2/\$3,564,500	0.50%	\$ -	\$ 2,400,097
<b>Total Revenue Obligation Debt</b>		<b>\$ -</b>	<b>\$ 2,400,097</b>

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

Year Ending	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ -	\$ -	\$ 200,008	\$ 12,001
2016	-	-	200,008	11,000
2017	-	-	200,008	10,001
2018	-	-	200,008	9,000
2019	-	-	200,008	8,000
2020 - 2024	-	-	1,000,041	25,001

2025 - 2029	-	-	400,016	3,000
2030 - 2034	-	-	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,400,097</b>	<b>\$ 78,003</b>

Local Improvement District (LID) Special Assessment Debt with governmental commitment currently outstanding is as follows:

Purpose/Original Issue Amount	Interest Rates	Governmental Activities	Business-Type Activities
PWTF Loan South Island Sewer Lines Constr./\$5,600,000	0.50%	\$ -	\$ 2,975,000
Local Improvement District No. 22 Bonds Street Constr./\$755,300	4.56%	336,273	-
<b>Total LID Obligation Debt</b>		<b>\$ 336,273</b>	<b>\$ 2,975,000</b>

The annual debt service requirements to maturity for LID Special Assessment Debt with governmental commitment are as follows:

Year Ending	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 37,364	\$ 15,334	\$ 297,500	\$ 13,635
2016	37,364	13,668	297,500	13,388
2017	37,364	11,926	297,500	11,900
2018	37,364	10,223	297,500	10,413
2019	37,364	8,519	297,500	8,925
2020 - 2024	149,453	17,056	1,487,500	22,313
2025 - 2029	-	-	-	-
2030 - 2034	-	-	-	-
<b>Total</b>	<b>\$ 336,273</b>	<b>\$ 76,726</b>	<b>\$ 2,975,000</b>	<b>\$ 80,574</b>

### A. Changes in Long-Term Liabilities

During the year ending December 31, 2014, the following changes occurred in long-term liabilities:

	Beginning Balance Jan. 1, 2014	Additions	Reductions	Ending Balance Dec. 31, 2014	Due Within One Year
<b>Governmental Activities:</b>					
Unlimited Tax General Obligation Bonds	\$ 5,045,000	\$ -	\$ (430,000)	\$ 4,615,000	\$ 445,000
Limited Tax General Obligation Bonds	11,375,000	-	(1,540,000)	9,835,000	1,600,000
Local Improvement District Bonds	373,637	-	(37,364)	336,273	37,364
<b>Total Bonds Payable</b>	<b>16,793,637</b>	<b>-</b>	<b>(2,007,364)</b>	<b>14,786,273</b>	<b>2,082,364</b>

Land Purchase Contracts	249,000	-	(100,000)	149,000	100,000
Capital Leases	58,881	-	(58,881)	-	-
Loans from Other Gov'ts	524,686	-	(58,520)	466,166	58,520
Compensated Absences	426,426	206,173	(225,724)	406,875	150,000
OPEB Payable	192,020	69,868	(49,505)	212,383	50,000
Unamortized Bond Discounts & Prem.	595,021	550	(74,383)	521,188	73,832
<b>Total Governmental Activity long-term liabilities</b>	<b>\$ 18,839,671</b>	<b>\$ 276,592</b>	<b>\$ (2,574,377)</b>	<b>\$ 16,541,885</b>	<b>\$ 2,514,716</b>
<b>Business-Type Activities:</b>					
Limited Tax General Obligation Bonds	\$ 4,675,000	\$ -	\$ (425,000)	\$ 4,250,000	\$ 200,000
Loans from Other Gov'ts	9,537,447	2,505,708	(800,356)	11,242,799	939,562
Compensated Absences	338,860	103,702	(113,536)	329,026	85,000
Landfill Post Closure Liability	494,671	-	(7,632)	487,039	28,649
Unamortized Bond Discounts & Prem.	166,473	-	(9,792)	156,681	9,792
<b>Total Business-Type Activity long-term liabilities</b>	<b>\$ 15,212,452</b>	<b>\$ 2,609,410</b>	<b>\$ (1,356,316)</b>	<b>\$ 16,465,546</b>	<b>\$ 1,263,003</b>

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

## B. Long-term Washington State EECBG Grant Obligation

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

## C. Leases

### I. 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

The City had no capital lease obligations outstanding at December 31, 2014.

### D. Federal Arbitrage Regulations

The Federal Tax Reform Act of 1986 requires tax-exempt debt issuers to pay the federal government any investment earnings where the yields exceed the issuer's borrowing rates. The liability is recorded at present value and is payable every five years or 60 days after defeasance of debt. The City has tax-exempt debt susceptible to arbitrage liability but carefully monitors its investments to restrict earnings to a yield less than the bond issue. At December 31, 2014, the City had no arbitrage liability.

### NOTE 9 – LANDFILL POST-CLOSURE CARE COSTS

In 2001 the City purchased the closed Vincent Road Landfill from Kitsap County. The landfill was closed in 1977 and by the end of 2001 the City and County had completed Washington State Department of Ecology mandated environmental remedial action for the site. The City maintains several monitoring wells on the site and is responsible, under state and federal laws, for future monitoring and maintenance costs through 2031. The City is also responsible for any remedial expenses that might arise should the earlier remedial efforts fail. In 2010 the City sold a portion of the site to Bainbridge Disposal. The City still retains a majority of the site and the related monitoring, maintenance and potential future remediation expenses.

The \$487,039 reported as landfill post-closure liability at December 31, 2014, represents the estimated liability for all future post-closure costs based on what it would cost to perform all post-closure care in 2014. This estimate is subject to change due to changes in inflation, technology or regulations. Since the landfill is closed, actual post-closure care costs incurred each year are reported as a reduction in the post-closure liability. The reduction for 2014 was \$7,632 from a balance at the beginning of the year of \$494,671.

Because the landfill was closed prior to 1989, no assets have been restricted to guarantee financial assurance for future costs based on the City's interpretation of the applicability of Washington Administrative Code 173-304-467.

### 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.F.7. – Compensated Absences. However, employees can draw on that time in the future if sick or injured. As of December 31, 2014 and 2013, the value of total accumulated sick leave was \$1,387,925 and \$1,315,102 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, 2014 and 2013, was \$95,533 and \$96,721, 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 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.

**New Cingular Wireless (AT&T) v. City of Bainbridge Island.** This is a lawsuit brought by a wireless carrier claiming that it incorrectly paid utility taxes to the City on internet services. The carrier is seeking a refund from the City of Bainbridge Island and numerous other cities in the state. The lawsuit was originally brought in King County against all of the city defendants, but the cities were successful in requiring that lawsuit to be dismissed and refiled in each of the counties in which the individual cities are located. The cases against cities other than the City of Bothell were stayed pending a decision in the Bothell case. On August, 25, 2014, the Court of Appeals, Division One, determined that the statute of limitations bars recovery of all payments made more than three years before the filing of this lawsuit. The Court of Appeals reversed and remanded the Bothell case to the Superior court for further proceedings consistent with the Court of Appeal's decision. The outcome of this case cannot be determined at this time.

**Gerlach v. City of Bainbridge Island.** This is a lawsuit brought by plaintiffs in Kitsap County Superior Court seeking a declaratory judgment and damages relating to the City's processing of a shoreline permit application for a bulkhead and dock. A summary judgment in favor of the City dismissing all of the plaintiffs' claims was entered on September 5, 2013. Plaintiffs appealed that judgment to the Washington State Court of Appeals, Division II. Oral argument was held on September 9, 2014. On December 16, 2014, the Court of Appeals upheld the trial court's dismissal of the Gerlachs' lawsuit on the basis that the appearance of fairness doctrine does not apply to the Planning Director's decision on shoreline substantial development permits. On January 12, 2015, Plaintiffs filed a Motion for Discretionary review with the Washington State Supreme Court; the Supreme Court is not expected to make a decision on the Motion for Discretionary Review for three to six months. The outcome of this case cannot be determined at this time.

## NOTE 11 – INTERFUND BALANCES AND TRANSACTIONS

### A. Interfund Balances

During 2014 the general fund loaned the construction fund \$100,000. The loan was repaid before year-end. The City had no interfund loans outstanding at fiscal year-end 2014.

### B. Interfund transfers

Interfund transfers for the year ended December 31, 2014, were as follows:

	Transfers from General Fund	Transfers from Street Fund	Transfers from Real Estate Excise Tax Fund	Transfers from Transp. Benefit District Fund	Total	Purpose of Transfer
<b>Receiving Fund:</b>						
Streets Fund	\$ -	\$ -	\$ 484,310	\$ 150,000	\$ 634,310	Operating Subsidy
General Obl. Bond Fund	207,102	-	1,866,634	-	2,073,736	Debt Service
Construction Fund	600,863	118,200	-	100,000	819,063	Constr. Support
Water Fund	2,500	-	-	-	2,500	Reimbursement
Bldg. & Dev. Svcs. Fund	694,720	-	-	-	694,720	Operating Subsidy

<b>Total Governmental Activities</b>	<b>\$1,505,185</b>	<b>\$ 118,200</b>	<b>\$ 2,350,944</b>	<b>\$ 250,000</b>	<b>\$4,224,329</b>	
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As discussed in Note No. 1.C. (Measurement Focus, Basis of Accounting and Financial Statement Presentation) the City also pays internal economic rent, internal utility taxes, internal development permits and internal sewer, water and storm and surface water utility fees for various City facilities. The City chooses to treat these activities as external transactions.

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

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

## NOTE 12 – RECEIVABLE AND PAYABLE BALANCES

### A. Receivables

Receivables (net of amounts determined to be uncollectible) at December 31, 2014, were as follows:

	Accounts	Taxes	Special Assessments	Due from Other Governments	Total
<b>Governmental Activities:</b>					
General Government	\$ 131,477	\$1,423,744	\$ -	\$ -	\$ 1,555,220
Public Safety	-	-	-	-	-
Transportation	1,445	-	340,322	521,887	863,655
Culture & Recreation	20,000	7,088	-	-	27,088
Judicial	204,759	-	-	-	204,759
Economic Environment	-	-	-	100,000	100,000
Health and Human Service	-	-	-	59,171	59,171
<b>Total Governmental Activities</b>	<b>\$ 357,680</b>	<b>\$1,430,832</b>	<b>\$ 340,322</b>	<b>\$ 681,058</b>	<b>\$ 2,809,893</b>
<b>Business-Type Activities:</b>					
Water	\$ 15,457	\$ -	\$ -	\$ -	\$ 15,457
Sewer	68,473	-	1,955,274	-	2,023,747
Storm & Surface Water	251,717	-	-	67,985	319,703
Bldg. & Dev. Svcs.	845	-	-	-	845
<b>Total Business-Type Activities</b>	<b>\$ 336,492</b>	<b>\$ -</b>	<b>\$ 1,955,274</b>	<b>\$ 67,985</b>	<b>\$ 2,359,751</b>

Taxes are not considered related to any activity and have been classified as General Government in this schedule except for a small portion specifically related to voter approved open space bonds. At the fund accounting level the City recognizes property taxes as revenue when they are levied and legally due. All other taxes are recognized at the government-wide reporting level when they are measurable and available.

**B. Payables**

Payables at December 31, 2014, were as follows:

	Vendors	Salaries and Benefits	Other	Total
<b>Governmental Activities:</b>				
General Government	\$ 386,459	\$ 170,815	\$ -	\$ 557,273
Public Safety	34,147	109,027	-	143,174
Transportation	106,786	61,719	55,793	224,298
Culture and Recreation	-	-	27,480	27,480
Judicial	1,641	17,330	-	18,971
Economic Environment	24,339	-	-	24,339
Health and Human Service	20,995	-	-	20,995
<b>Total Governmental Activities</b>	<b>\$ 574,365</b>	<b>\$ 358,891</b>	<b>\$ 83,273</b>	<b>\$ 1,016,530</b>
<b>Business-Type Activities:</b>				
Water	\$ 35,236	\$ 21,161	\$ -	\$ 56,398
Sewer	66,602	56,240	35,674	158,516
Storm & Surface Water	73,764	46,245	1,256	121,265
Bldg. & Dev. Svcs.	13,606	71,778	-	85,383
<b>Total Business-Type Activities</b>	<b>\$ 189,207</b>	<b>\$ 195,425</b>	<b>\$ 36,931</b>	<b>\$ 421,562</b>

**NOTE 13 – SEGMENT INFORMATION**

The City has neither revenue bonds nor revenue-backed debt outstanding for which full, detailed segment data is required to be provided in the basic financial statements. However, because the City has issued limited tax general obligation bonds backed by a pledge of the revenues of the City's wastewater treatment system, the following information is provided. In addition, the City's general obligation debt pledges all revenues from all sources.

The City's water utility provides domestic water, irrigation water, and fire flow water to roughly 2,300 customers, primarily in the Winslow area. Its sewer utility provides wastewater collection in the South Island and Lynwood Center areas to roughly 200 customers, and collection and treatment in the Winslow area to roughly 1,900 customers. Its storm and surface water management utility provides storm drainage facilities throughout the island as well as watershed protection and 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 – POST EMPLOYMENT BENEFITS OTHER THAN RETIREMENT**

The City has no termination benefits other than the accrued compensated absences described in Note No. 1.F.7. (Compensated Absences) and Note No. 8 (Long-Term Debt) and as described below for the Law Enforcement Officers and Firefighters (LEOFF) retirement system for employees hired before October 1, 1977.

In addition to the pension benefits described in Note No. 6 (Pension Plans), the City provides certain post-employment health care benefits via a single-employer defined benefit healthcare plan.

**A. LEOFF I Retiree Medical Plan****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. The City provides health coverage for LEOFF I eligible members through a separately purchased medical insurance plan. Under the authorization of the State LEOFF Disability Board, direct payment is made for most retiree medical expenses not covered by insurance or other sources. The plan covers retirees who are retired on disability as well as those retired after reaching the age requirement. As of December 31, 2014, the City's plan had two covered retirees. The plan also had one active member who has separated from City service but is still employed elsewhere. Dental costs and dependents are not covered. The City's LEOFF I plan does not issue a publicly available financial report.

### Funding Policy

Funding for LEOFF I retiree healthcare costs is provided entirely by the City as required by State statute. 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 No. 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, 2015.

The following table shows the components of the City's annual OPEB cost for 2014 and the prior two years, the amounts actually contributed to the plan, and changes in the City's net OPEB.

	Fiscal Year Ending	Fiscal Year Ending	Fiscal Year Ending
Determination of Annual Required Contribution:	12/31/2014	12/31/2013	12/31/2012
Normal Cost at Year End	\$ -	\$ -	\$ -
Amortization of UAAL*	79,107	82,512	85,844
Interest for Year	-	-	-
<b>Annual Required Contribution</b>	<b>\$ 79,107</b>	<b>\$ 82,512</b>	<b>\$ 85,844</b>

Determination of Net OPEB Obligation:	*Unfunded Actuarial Accrued Liability (UAAL)		
Annual Required Contribution	\$ 79,107	\$ 82,512	\$ 85,844
Interest on Prior Year Net OPEB Obligation	8,641	7,455	6,280
Adjustment to ARC	(17,880)	(15,426)	(12,995)
<b>Annual OPEB Cost</b>	<b>\$ 69,868</b>	<b>\$ 74,541</b>	<b>\$ 79,129</b>

Contributions Made	\$ (49,505)	\$ (48,192)	\$ (53,023)
<b>Increase in Net OPEB Obligation</b>	<b>\$ 20,363</b>	<b>\$ 26,349</b>	<b>\$ 26,106</b>

Net OPEB Obligation-Beginning of Year	\$ 192,020	\$ 165,671	\$ 139,565
<b>Net OPEB Obligation-End of Year</b>	<b>\$ 212,383</b>	<b>\$ 192,020</b>	<b>\$ 165,671</b>



The City's OPEB cost, the percentage of OPEB cost contributed to the plan and the net OPEB obligation for 2014 and the five prior years is as follows:

Fiscal Year Ending	Annual OPEB Cost	Employer Contributions	% of OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	\$ 69,868	\$ 49,505	71%	\$ 212,383
12/31/2013	\$ 74,541	\$ 48,192	65%	\$ 192,020
12/31/2012	\$ 79,129	\$ 53,023	67%	\$ 165,571
12/31/2011	\$ 84,099	\$ 49,366	59%	\$ 139,565
12/31/2010	\$ 89,535	\$ 44,533	50%	\$ 104,832
12/31/2009	\$ 97,778	\$ 37,948	39%	\$ 59,830

### Funded Status and Funding Progress

As of January 1, 2014, the most recent calculation date, the plan was 0% funded. The accrued liability for benefits was \$849,570 and the actuarial value of the assets was \$0 resulting in a UAAL of \$849,570. 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 multi-year 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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The City uses the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members to determine the actuarial accrued liability. Termination and mortality rates were assumed to follow the LEOFF I termination and mortality rates used in the June 30, 2009, 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 2012. 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 – PRIOR PERIOD ADJUSTMENTS

During 2014 the City had the following prior period adjustments.

- \$59,171 in the governmental activities portion of the entity-wide Statement of Activities resulted from reinstating a previously written off intergovernmental loan to the Kitsap County Consolidated Housing Authority.

- \$6,260 in the water fund resulted from the abandonment of a project the City no longer deemed viable.
- \$494,671 in the Storm and Surface Water Management fund for landfill post-closure expenses related to the Vincent Road landfill.

**NOTE 16 – SUBSEQUENT EVENTS**

In January 2015 the City settled a lawsuit alleging violations of the State of Washington Public Records Act (PRA) relating to the production of certain councilmembers' emails. The City paid \$137,790 in attorneys' fees and \$350,000 to settle all outstanding PRA penalty claims.

## REQUIRED SUPPLEMENTAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2014

### BUDGETARY CHANGES

The City of Bainbridge Island manages its budget both by fund and department. Generally, under Washington State statute, expenditures for a fund may not exceed the final amended budget for that fund. Under City law, the City Manager may authorize transfers of budgetary spending authority within a fund but not between funds without City Council authorization. Because these are the only two restrictions in force, there is no requirement to stay within a department budget although Department Directors are expected not to exceed their operating budgets. The City budgets on a GAAP basis of accounting.

Department	Appropriated Budget	Amended Budget	Actuals	Difference from Amended
Legislative	\$ 102,214	\$ 102,214	\$ 98,400	\$ 3,813
Judicial	552,710	552,710	506,438	46,272
Executive	2,412,975	2,598,203	2,448,704	149,498
Finance	9,497,698	10,606,766	6,119,457	4,487,310
Public Safety	4,025,199	4,024,936	3,583,132	441,805
Planning	2,359,968	2,360,729	2,028,204	332,525
Public Works	18,411,342	19,787,891	11,348,760	8,439,131
General Government	8,119,898	8,296,177	7,849,215	446,962
<b>Total</b>	<b>\$ 45,482,003</b>	<b>\$ 48,329,625</b>	<b>\$ 33,982,310</b>	<b>\$ 14,347,315</b>

The mid-biennium modifications to the final 2014 budget were passed in December 2013. The appropriated 2014 budget included \$7,439,877 in interfund transfers. Unspent amounts in the Finance Department were due to General Fund transfers to other funds that were significantly lower than anticipated. This was due to higher than budgeted real estate excise tax revenue, as well as higher than expected revenue in the Building and Development Services Fund. Unspent amounts in the Public Safety and Planning Departments were due to several open positions. Significant unspent amounts in the Public Works Department were due to unfinished capital projects, and certain capital projects which were completed for less than the budgeted amounts. Unspent amounts in the General Government Department were due to lower than anticipated debt service on the sewer beach mains Public Works Trust Fund loan.

### 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
12/31/2014	\$ -	\$ 849,570	\$ 849,570	0%	\$ -	0%
12/31/2013	\$ -	\$ 886,147	\$ 886,147	0%	\$ -	0%
12/31/2012	\$ -	\$ 921,921	\$ 921,921	0%	\$ -	0%
12/31/2011	\$ -	\$ 957,355	\$ 957,355	0%	\$ -	0%
12/31/2010	\$ -	\$ 992,483	\$ 992,483	0%	\$ -	0%
12/31/2009	\$ -	\$ 1,050,090	\$ 1,050,090	0%	\$ -	0%
12/31/2008	\$ -	\$ 1,083,259	\$ 1,083,259	0%	\$ -	0%

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**

**Budgetary Comparison Schedule**

**General Fund**

**For the Year Ended December 31, 2014**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Revised		
<b>REVENUES</b>				
Property Taxes	\$ 6,825,987	\$ 6,825,987	\$ 6,870,693	\$ 44,706
Other Taxes	6,607,480	6,607,480	7,218,054	610,574
Fees and Fines	138,190	138,190	111,820	(26,370)
Licenses and Permits	518,537	518,537	608,016	89,479
Intergovernmental	326,478	326,478	302,496	(23,982)
Charges for Services	563,305	563,305	472,394	(90,911)
Interest	13,769	13,769	62,070	48,301
Other Revenues	71,400	71,400	92,614	21,214
<b>Total REVENUES</b>	<b>15,065,146</b>	<b>15,065,146</b>	<b>15,738,156</b>	<b>673,010</b>
<b>EXPENDITURES</b>				
General Government	4,180,911	4,408,794	4,100,672	308,122
Judicial	652,853	652,853	592,302	60,551
Public Safety	4,259,207	4,247,207	3,830,799	416,408
Physical Environment	441,059	461,059	353,169	107,889
Transportation	-	-	9,854	(9,854)
Health and Human Services	300,159	300,159	272,722	27,437
Economic Environment	1,048,328	1,098,646	872,754	225,891
Culture and Recreation	226,432	293,432	297,623	(4,191)
Debt Service - Principal	158,881	158,881	158,881	-
Debt Service - Interest	20,579	20,579	21,598	(1,019)
Capital Outlay	735,907	720,594	459,073	261,521
<b>Total EXPENDITURES</b>	<b>12,024,316</b>	<b>12,362,204</b>	<b>10,969,448</b>	<b>1,392,756</b>
<b>Operating Income (Loss)</b>	<b>3,040,830</b>	<b>2,702,942</b>	<b>4,768,708</b>	<b>2,065,766</b>
<b>OTHER FINANCING SOURCES/USES</b>				
Proceeds from Sale of Capital Assets	5,000	5,000	35,005	30,005
Transfers - Out	(5,784,235)	(5,784,235)	(1,505,185)	4,279,050
<b>Total OTHER FINANCING SOURCES/USES</b>	<b>(5,779,235)</b>	<b>(5,779,235)</b>	<b>(1,470,180)</b>	<b>4,309,055</b>
<b>Net Change in Fund Balance</b>	<b>(2,738,405)</b>	<b>(3,076,293)</b>	<b>3,298,529</b>	<b>6,374,822</b>
<b>Fund Balances -- Beginning</b>	<b>8,419,817</b>	<b>10,404,852</b>	<b>10,404,852</b>	<b>-</b>
<b>Prior Period Adjustment</b>	<b>-</b>	<b>-</b>	<b>59,171</b>	<b>59,171</b>
<b>Total Ending Fund Balance</b>	<b>\$5,681,412</b>	<b>\$ 7,328,559</b>		<b>\$ 6,433,993</b>

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**

**Budgetary Comparison Schedule**

**Street Fund**

**For the Year Ended December 31, 2014**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Revised		
<b>REVENUES</b>				
Other Taxes	\$ 570,000	\$ 570,000	\$ 753,167	\$ 183,167
Licenses and Permits	26,820	26,820	55,795	28,975
Intergovernmental	728,721	1,162,721	1,029,676	(133,045)
Charges for Services	-	-	915	915
Other Revenues	-	-	87	87
<b>Total REVENUES</b>	<b>1,325,541</b>	<b>1,759,541</b>	<b>1,839,640</b>	<b>80,099</b>
<b>EXPENDITURES</b>				
General Government	353,034	353,823	381,534	(27,712)
Public Safety	(2,515)	7,338	48,667	(41,329)
Physical Environment	12,350	12,350	30,925	(18,575)
Transportation	1,770,061	2,946,055	2,280,121	665,934
Culture and Recreation	-	-	3,421	(3,421)
Capital Outlay	925,000	169,377	140,591	28,786
<b>Total EXPENDITURES</b>	<b>3,057,930</b>	<b>3,488,942</b>	<b>2,885,260</b>	<b>603,683</b>
<b>Operating Income (Loss)</b>	<b>(1,732,389)</b>	<b>(1,729,401)</b>	<b>(1,045,620)</b>	<b>683,782</b>
<b>OTHER FINANCING SOURCES/USES</b>				
Proceeds from Sale of Capital Assets	-	-	130,325	130,325
Transfers - In	1,143,000	1,143,000	634,310	(508,690)
Transfers - Out	-	-	(118,200)	(118,200)
<b>Total OTHER FINANCING SOURCES/USES</b>	<b>1,143,000</b>	<b>1,143,000</b>	<b>646,435</b>	<b>(496,565)</b>
<b>Net Change in Fund Balance</b>	<b>(589,389)</b>	<b>(586,401)</b>	<b>(399,185)</b>	<b>187,217</b>
<b>Fund Balances -- Beginning</b>	<b>598,340</b>	<b>513,062</b>	<b>513,062</b>	<b>-</b>
<b>Total Ending Fund Balance</b>	<b>\$8,951</b>	<b>\$(73,339)</b>		<b>\$ 187,217</b>

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**  
**Budgetary Comparison Schedule**  
**Real Estate Excise Tax Fund**  
**For the Year Ended December 31, 2014**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Revised		
<b>REVENUES</b>				
Other Taxes	\$ 1,275,000	\$ 2,600,000	\$ 2,354,940	\$ (245,060)
Interest	3,060	3,060	-	(3,060)
<b>Total REVENUES</b>	<b>1,278,060</b>	<b>2,603,060</b>	<b>2,354,940</b>	<b>(248,120)</b>
Operating Income (Loss)	1,278,060	2,603,060	2,354,940	(248,120)
<b>OTHER FINANCING SOURCES/USES</b>				
Transfers - Out	(1,578,060)	(2,600,000)	(2,350,944)	249,056
<b>Total OTHER FINANCING SOURCES/USES</b>	<b>(1,578,060)</b>	<b>(2,600,000)</b>	<b>(2,350,944)</b>	<b>249,056</b>
Net Change in Fund Balance	(300,000)	3,060	3,996	936
Fund Balances -- Beginning	832,350	5	5	-
<b>Total Ending Fund Balance</b>	<b>\$532,350</b>	<b>\$ 3,065</b>		<b>\$ 936</b>

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2014**

Grantor/Pass Through Agency and Program Title	Federal CFDA	Other Identification	Current Year Expenditures
<b>U.S. Dept. of Homeland Security, Office of Justice Programs - agency direct program</b>			
BULLETPROOF VEST PARTNERSHIP PROGRAM	16.607	None	\$ 2,716
<b><u>Total U.S. Department of Homeland Security</u></b>			<b><u>2,716</u></b>
<b>U.S. Dept. of Transportation - pass through State Department of Transportation</b>			
HIGHWAY PLANNING AND CONSTRUCTION			
Sound to Olympic Trail - Phase 2	20.205	TAP - 0305(20) LA-8505	2,356
Madison Ave. Pavement - H.S. Road to Winslow Way	20.205	STPUS-6711(001) LA-8398	427,097
Fort Ward Hill Phase 2 - Bolero to Sunny Hill	20.205	STPUS-6715(001) LA-8066	628,480
Wing Point Way Design & ROW	20.205	STPUS-6702(001) LA-8238	155,459
		<b>Subtotal CFDA #20.205</b>	<b><u>1,213,392</u></b>
<b>U.S. Dept. of Transportation - pass through Washington State Asso. of Sheriff's and Police Chiefs</b>			
STATE AND COMMUNITY HIGHWAY SAFETY			
Equipment Grants	20.600	None	1,000
<b><u>Total U.S. Department of Transportation</u></b>			<b><u>1,214,392</u></b>
<b>U.S. Dept. of Interior, National Parks Service - pass through State Dept. of Archeology and Historic Preservation</b>			
HISTORIC PRESERVATION FUND GRANTS-IN-AID			
Bainbridge Island Historic Structures Survey	15.904	FY14-61014-001	7,000
<b><u>Total U.S. Department of Interior, National Parks Service</u></b>			<b><u>7,000</u></b>
<b>U.S. Environmental Protection Agency - pass through Puget Sound Partnership and San Juan County</b>			
PUGET SOUND ACTION AGENDA OUTREACH, EDUCATION AND STEWARDSHIP SUPPORT PROGRAM			
Derelict Vessel Prevention Program	66.122	PT-00J17601	4,490
<b><u>Total U.S. Environmental Protection Agency</u></b>			<b><u>4,490</u></b>
<b>TOTAL FEDERAL AWARDS EXPENDED</b>			<b><u><u>\$ 1,228,597</u></u></b>

The Notes to the Schedules of Expenditures of Federal Awards is an integral part of this statement

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**  
**Notes to the Schedules of Expenditures of Federal and State Awards**  
**For the Year Ended December 31, 2014**

**NOTE 1 – BASIS OF ACCOUNTING**

This schedule is prepared on the same basis of accounting as the City of Bainbridge Island's (City) financial statements. The City uses Generally Accepted Accounting Principles as modified by the State Auditor's Budgeting, Accounting and Reporting System 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 FUNDS OBLIGATED WITH KITSAP CREDIT UNION**

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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

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