



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Financial Statements and Federal Single Audit  
Report**

**City of Bainbridge Island**

**Kitsap County**

**For the period January 1, 2016 through December 31, 2016**

**Published June 26, 2017**

**Report No. 1019388**





**Office of the Washington State Auditor**  
**Pat McCarthy**

June 26, 2017

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,

A handwritten signature in dark ink that reads "Pat McCarthy". The signature is fluid and cursive.

Pat McCarthy  
State Auditor  
Olympia, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Bainbridge Island**  
**Kitsap County**  
**January 1, 2016 through December 31, 2016**

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Bainbridge Island are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

##### 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 in accordance with 2 CFR 200.516(a).

### **Identification of Major Federal Programs:**

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

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

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City qualified as a low-risk auditee under the Uniform Guidance.

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

**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, 2016 through December 31, 2016**

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, 2016, 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 16, 2017.

**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.



Pat McCarthy

State Auditor

Olympia, WA

June 16, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**City of Bainbridge Island  
Kitsap County  
January 1, 2016 through December 31, 2016**

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) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2016. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

## **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 the Uniform Guidance, 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 the Uniform Guidance. 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy

State Auditor

Olympia, WA

June 16, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **City of Bainbridge Island Kitsap County January 1, 2016 through December 31, 2016**

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 14.

### **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, 2016, 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 15 through 24, information on postemployment benefits other than pensions on page 67, pension plan information on pages 68 through 75, and budgetary comparison information on pages 76 through 78 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.

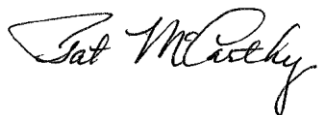


### ***Supplementary and Other Information***

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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 16, 2017 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.



Pat McCarthy

State Auditor

Olympia, WA

June 16, 2017

## **FINANCIAL SECTION**

**City of Bainbridge Island  
Kitsap County  
January 1, 2016 through December 31, 2016**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2016

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2016

Statement of Activities – 2016

Balance Sheet – Governmental Funds – 2016

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net  
Position – 2016

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2016

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance  
of Governmental Funds to the Statement of Activities – 2016

Statement of Net Position – Proprietary Funds – 2016

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds  
– 2016

Statement of Cash Flows – Proprietary Funds – 2016

Statement of Net Position – Fiduciary Funds – 2016

Notes to Financial Statements – 2016

### **REQUIRED SUPPLEMENTARY INFORMATION**

LEOFF 1 Retiree Medical Benefits – Schedule of Funding Progress – 2016

State Sponsored Pension Plans Information – 2016

Notes to Pension Plans Information – 2016

Budgetary Comparison Schedules – 2016

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2016

Notes to the Schedule of Expenditures of Federal Awards – 2016



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

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016**

This narrative provides an overview and analysis of the financial activities for the City of Bainbridge Island (City), fiscal year ending December 31, 2016. The purpose is to highlight significant financial issues and activities, the resulting changes in financial position, and economic factors affecting the City. We encourage readers to consider the information presented 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 and deferred inflows at the close of 2016 by \$147,524,208. Of this amount, \$24,032,456 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 \$6,708,830 or 5%. This increase was primarily the result of an increase in the City's cash position and a normal decrease in long-term debt through regular debt service.
- At the close of 2016, the City's governmental funds reported combined ending fund balances of \$20,018,358; an increase of \$3,044,137, or 18%, in comparison to the prior year.
- Total revenues for governmental activities increased \$2,840,297. The increase was driven largely by a \$1,957,997 increase in capital grants and contributions revenue, compared to the 2015 total of \$73,161, along with a \$1,013,993 increase in non-property tax revenue.
- The City's total liabilities decreased by \$1,445,159, or 4%, to \$36,452,017. Governmental activities long-term obligations decreased by \$1,795,154, and business-type activities long-term obligations decreased by \$682,262.
- A significant change in long-term obligations for the City occurred with the implementation of Governmental Accounting Standards Board (GASB) Statements No. 68 and 71, as amended, affecting 2016 and 2015 pensions. These new accounting standards resulted in pension-related debt of \$7,010,486 at year-end 2016 as compared to \$5,870,419 at year-end 2015. This change also resulted in a deficit net position in the Building and Development Service Fund of (\$1,164,708) at year-end 2016.
- The City fully funded all policy reserves set by the City Council.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves 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 the City's assets, deferred inflows, liabilities, and deferred outflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether the City's financial position is improving or deteriorating.

The *statement of activities and changes in net position* presents 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 only resulting 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:

- 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.

Financial statements for Governmental Funds 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 emphasize the short-term measurement and accounting 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. Fund balance is the difference between a fund's total assets and total liabilities. This balance generally indicates the potential amount available to finance activities in the following year. Likewise, the *statement of revenues, expenditures, and changes in fund balances* reports only

those revenues and expenditures 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, the General Obligation Bond Fund, and the Capital Construction Fund. All other Governmental Funds are reported in a single column (non-major funds).

Financial statements for Proprietary Funds 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. The *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 governmental activities.

Financial statements for Fiduciary Funds consist of a *statement of fiduciary net position*. The City holds assets acting as an agent for third parties. These assets cannot be used to finance City operations. The City is responsible for ensuring 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 presents certain *required supplementary information* concerning the City's budgetary comparisons. *Required supplementary information* is found following the *notes to the financial statements*.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Overall, the City's financial position in 2016 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. The City's overall financial position and operational results for the past two years are summarized below. This information is based on data in the government-wide financial statements.

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Cash and Cash Equivalents	\$ 21,066,117	\$17,339,823	\$14,810,788	\$14,430,224	\$ 35,876,905	\$31,770,047
Other Assets	3,598,124	3,716,274	1,713,077	2,221,038	5,311,201	5,937,312
Capital Assets	96,594,682	96,731,900	44,586,466	44,130,563	141,181,148	140,862,463
<b>Total Assets</b>	<b>121,258,923</b>	<b>117,787,998</b>	<b>61,110,331</b>	<b>60,781,824</b>	<b>182,369,254</b>	<b>178,569,822</b>
<b>Deferred Outflows of Resources</b>	<b>1,210,669</b>	<b>904,311</b>	<b>559,135</b>	<b>346,630</b>	<b>1,769,804</b>	<b>1,250,941</b>
Other Liabilities	1,545,723	1,000,993	1,169,501	681,974	2,715,224	1,682,967
Long Term Debt	15,830,173	17,625,327	17,906,619	18,588,881	33,736,792	36,214,208
<b>Total Liabilities</b>	<b>17,375,897</b>	<b>18,626,321</b>	<b>19,076,120</b>	<b>19,270,855</b>	<b>36,452,017</b>	<b>37,897,176</b>
<b>Deferred Inflows of Resources</b>	<b>97,011</b>	<b>723,609</b>	<b>65,822</b>	<b>384,601</b>	<b>162,833</b>	<b>1,108,210</b>
Net Investment in Capital Assets	89,807,348	87,556,584	30,512,195	28,856,407	120,319,543	116,412,991
Restricted	1,626,727	891,927	1,545,482	1,558,543	3,172,208	2,450,470
Unrestricted	13,562,609	10,893,868	10,469,847	11,058,048	24,032,456	21,951,916
<b>Total Net Position</b>	<b>\$104,996,684</b>	<b>\$99,342,379</b>	<b>\$42,527,524</b>	<b>\$41,472,999</b>	<b>\$147,524,208</b>	<b>\$140,815,377</b>

In 2016, the total net position of the City increased \$6,708,830 or 5%. Governmental activities net position increased \$5,654,305, or 6%, due to an increase in cash and cash equivalents and a decrease in long-term debt. Business-type activities net position increased \$1,054,525 or 3%.

Total cash and cash equivalents increased by \$4,106,858, or 13%, of which \$3,726,293, or 91%, was for governmental activities and \$380,565 was for business-type activities. The cash increases are primarily the result of recent actions taken by the City to bring budgetary expenditures below revenue estimates and certain delays in cash-funded capital projects. In addition, tax revenue for governmental activities exceeded estimates and contributed to the cash increase.

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
<b>Program Revenues</b>						
Charges for Services	\$ 1,270,367	\$ 1,206,131	\$ 8,401,381	\$ 8,203,098	\$ 9,671,747	\$ 9,409,229
Operating Grants & Contributions	866,221	1,298,560	5,339	10,701	871,560	1,309,261
Capital Grants & Contributions	2,031,158	73,161	582,729	987,329	2,613,887	1,060,490
<b>Total Program Revenues</b>	4,167,746	2,577,851	8,989,448	9,201,129	13,157,194	11,778,979
<b>General Revenues</b>						
Property Taxes	7,712,507	7,583,573	-	-	7,712,507	7,583,573
All Other Taxes	12,199,206	11,185,213	-	-	12,199,206	11,185,213
Interest	141,712	103,958	138,566	157,103	280,278	261,061
Other Revenues	418,306	348,585	8,988	11,734	427,293	360,319
<b>Total General Revenues</b>	20,471,730	19,221,328	147,554	168,837	20,619,284	19,390,165
<b>Total Revenues</b>	24,639,476	21,799,179	9,137,002	9,369,965	33,776,479	31,169,144
<b>Program Expenses</b>						
General Government	4,912,279	5,504,960	-	-	4,912,279	5,504,960
Judicial	638,107	654,482	-	-	638,107	654,482
Public Safety	4,602,079	4,211,558	-	-	4,602,079	4,211,558
Physical Environment	647,509	884,985	-	-	647,509	884,985
Transportation	3,707,127	4,624,785	-	-	3,707,127	4,624,785
Health & Human Svcs	242,279	273,075	-	-	242,279	273,075
Econ. Environment	1,481,283	1,230,789	-	-	1,481,283	1,230,789
Culture & Recreation	591,634	604,565	-	-	591,634	604,565
Water	-	-	1,391,412	1,310,856	1,391,412	1,310,856
Sewer	-	-	3,416,595	3,454,464	3,416,595	3,454,464
Storm & Surface Water Management	-	-	1,794,057	1,731,690	1,794,057	1,731,690
Building & Development Svcs	-	-	2,119,641	1,965,603	2,119,641	1,965,603
<b>Total Program Expenses</b>	16,822,297	17,989,198	8,721,706	8,462,613	25,544,003	26,451,811
<b>Excess/Deficiency</b>	7,817,180	3,809,981	415,296	907,353	8,232,476	4,717,333
<b>Other</b>						
Transfers	(629,104)	(566,750)	629,104	566,750	-	-
<b>Changes in Net Position</b>	5,654,305	3,243,231	1,054,525	1,474,103	6,708,830	4,717,333
<b>Beginning Net Position</b>	99,342,379	96,099,147	41,472,999	39,998,896	140,815,377	136,098,043
<b>Ending Net Position</b>	\$104,996,684	\$99,342,378	\$42,527,524	\$41,472,999	\$147,524,208	\$140,815,376

## **GOVERNMENTAL ACTIVITIES**

In 2016, the net position of governmental activities increased \$5,645,305, or 6%, to \$104,996,684.

Total 2016 program revenues increased by \$1,589,895, or 62%, which included increases in two of the three revenue categories. Revenue from capital grants and contributions increased from \$73,161 in 2015 to \$2,031,158 in 2016. The most significant revenue component of governmental activities is the general tax base. At \$19,911,713, taxes represent 81% of the \$24,639,476 in total revenues for 2016. Property tax is the single largest source of governmental activities revenue at \$7,712,507, or 31% of total revenues.

Governmental activities program expenses in total decreased by \$1,166,901, or 6%, in 2016 as compared to 2015. Expenses decreased in six of eight program categories. Public Safety increased \$390,521, or 9%, to \$4,602,079 and Economic Environment increased \$250,494, or 20%, to \$1,481,283. The Transportation expense category decreased by \$917,658, or 20%, to a total of \$3,707,127 in 2016, which is comparable to the \$3,942,553 and \$3,606,161 in 2014 and 2013, respectively.

## **BUSINESS-TYPE ACTIVITIES**

In 2016, there was an increase in net position related to business-type activities of \$1,054,525, or 3%, to \$42,527,524.

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 \$469,795. The Building and Development Services activity recovered 78% of its operating expenses with operating revenues, which compares closely to the policy goal of 75% cost recovery. An operating transfer from the General Fund provided additional revenue to cover program costs.

## **ANALYSIS OF BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS**

The General Fund balance increased \$335,489, or 2%, because of an increase in tax revenue offset by a significant increase in capital projects funded from the General Fund through transfers to the Capital Construction Fund. Thus, the General Fund ended 2016 with a fund balance of \$15,390,702 as compared to \$15,055,214 in 2015.

The Water, Sewer and Storm and Surface Water Management Funds ended 2016 with unrestricted net positions of \$6,366,298, \$5,192,921, and \$75,336, respectively. The Building and Development Services fund ended 2016 with a deficit unrestricted net position of (\$1,164,708) due to the net pension liability of \$1,228,299. The net pension liability is shown in this fund due to the City's implementation of GASB Statements No. 68 and 71 in 2015.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The original 2016 adopted budget anticipated a decrease of \$246,896, or 2%, in the budgetary fund balance during the year from \$10,892,870 to \$10,645,974. The budget anticipated relatively flat revenue trends and expenditure increases in only a few select functions. The revised 2016 budget used updated information and revised the beginning fund balance upward to \$15,055,214 in accordance with actual performance. Expenditure budgets were modified as well, with additional spending for general government, public safety, economic environment, culture and recreation, and capital outlay program categories. The 2016 revised budgeted ending fund balance was \$11,506,837. The actual 2016 ending fund balance was \$15,390,702, an increase of \$335,489 during the year.

Actual revenues exceeded the final budget by \$938,035 mostly due to taxes and intergovernmental revenue, especially grants that were higher than budgeted. Actual expenditures were \$2,009,751 less than



the revised budget driven by the lower than anticipated personnel and professional services costs, particularly the number of vacant positions that were difficult to fill.

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.F. in the *notes to the financial statements*, economic and other factors below and the required supplementary information.

## **OTHER FUND BUDGETARY HIGHLIGHTS**

Total Street Fund revenue from Taxes were \$908,419, or 14%, above estimates. Expenditures were \$2,834,502, which was \$360,024, or 11%, under the final revised budget. The savings was due to a delay in professional services spending related to right of way acquisition for transportation projects and postponement of restriping work caused by unseasonable high rain fall. Differences between original and revised budgets were minimal and included only a 7% increase in transportation related expenses.

Real Estate Excise Tax Fund final revenues of \$2,882,184 exceeded both the original budget of \$2,000,000 and the revised budget of \$2,600,000. The original revenue budget, and corresponding transfers out, were increased in the revised budget due to unanticipated increases in tax revenue. This fund provides support to qualifying expenses in other funds.

The Capital Construction Fund's revised expenditure budget of \$11,332,040 was increased from the original by over 300% in anticipation of several capital projects planned to start in 2016. However, because these are multi-year projects, actual expenditures were only \$3,436,440, or 30%, of the revised budget.

Water Fund revenues and other financing sources were \$123,658, or 10%, over budget due primarily to higher than budgeted revenue from participation fees, or fees paid to join the water utility. The capital expenditure revised budget was increased to \$1,145,094, 340% over the original budget, primarily in anticipation of the Wing Point Way project. However, actual capital expenditures were only \$412,949, or 36% of budget, due to a change in the project design.

Sewer Fund revenues and other financing sources were \$406,329, or 10%, higher than budgeted primarily due to higher than anticipated revenue from participation fees, or fees paid to join the sewer utility. The capital expenditure budget was increased to \$2,551,944, 75% over the original budget, primarily in anticipation of the Wing Point Way project. However, actual capital expenditures were only \$578,763, or 23% of budget, due to a change in the project design.

Storm and Surface Water Management Fund revenues and other financing sources were \$534,189, or 26%, higher than budget, due to the timing of grant revenue. In addition, significant General Fund operating support for the Wing Point Way capital project, in the form of transfers in, was unanticipated in both the original and revised budgets.

The Building and Development Services Fund revenues were \$1,713,149, exceeding budget by \$393,149, or 30%, due to higher than budgeted building permit, planning review of building permit, and zoning and subdivision fees. As a result, the required transfers in from the General Fund were only \$265,000, or 32%, of budget.

## CAPITAL ASSETS

The City's net invested in capital assets (net of depreciation) increased \$318,684 to a total of \$141,181,148 in 2016. Governmental assets represent 68% of the City's overall net investment in capital assets. Land represents 64% 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. In 2016, the City donated and sold \$1,963,787 in governmental land, 3% of the total.

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	
	2016	2015	2016	2015	2016	2015
Land	\$61,669,961	\$63,633,748	\$ 1,796,865	\$ 1,796,865	\$ 63,466,826	\$ 65,430,614
Buildings & Improvements	16,400,829	16,400,829	54,728	40,619	16,455,558	16,441,449
Intangible Assets	880,000	880,000	32,365	32,365	912,365	912,365
Vehicles & Equipment	7,089,497	6,651,767	1,907,471	1,658,256	8,996,968	8,310,023
Infrastructure	41,150,979	39,334,761	63,233,388	62,019,309	104,384,367	101,354,069
Construction in Progress	3,585,562	1,635,926	588,734	171,332	4,174,296	1,807,258
Accumulated Depreciation	(34,182,146)	(31,805,132)	(23,027,087)	(21,588,184)	(57,209,233)	(53,393,316)
<b>Totals</b>	<b>\$96,594,682</b>	<b>\$96,731,900</b>	<b>\$44,586,466</b>	<b>\$44,130,563</b>	<b>\$141,181,148</b>	<b>\$140,862,463</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 2016 the City's total long-term obligations decreased by \$2,477,416, or 7%, as compared to 2015. Governmental activities obligations decreased \$1,795,154, or 10%, due to normal debt retirements offset by an increase in net pension liability. Business-type activities obligations decreased \$682,262, or 4%, also due to normal debt retirements offset by an increase in net pension liability. Of the debt outstanding at the end of 2016, 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.

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds	\$ 10,295,000	\$12,405,000	\$ 3,845,000	\$ 4,050,000	\$14,140,000	\$16,455,000
LID Bonds	261,545	298,909	-	-	261,545	298,909
Intergovernmental Loans	283,978	407,643	10,092,175	11,077,268	10,376,154	11,484,911
Land Purchase Contracts	-	49,000	-	-	-	49,000
Compensated Absences	446,376	441,682	349,062	346,644	795,437	788,326
Other Post-Employment Benefits	246,795	228,780	-	-	246,795	228,780
Net Pension Liability	3,921,322	3,346,140	3,089,164	2,524,279	7,010,486	5,870,419
Landfill Post-Closure Care Costs	-	-	394,123	443,801	394,123	443,801
Unamortized Bond Discounts & Premiums	375,157	448,173	137,096	146,888	512,252	595,061
<b>Totals</b>	<b>\$ 15,830,173</b>	<b>\$17,625,327</b>	<b>\$ 17,906,619</b>	<b>\$18,588,881</b>	<b>\$33,736,792</b>	<b>\$36,214,208</b>

## ECONOMIC AND OTHER FACTORS

The City experienced strong effects of the 2008/2009 national and regional economic slowdown. Economic recovery for the City of Bainbridge Island began in 2011 and continues at a moderate pace. The City has implemented policies to conservatively estimate revenues and adopted cost containment measures to reduce expenditures.

After staff reductions which began in 2009 and continued through 2013, staffing levels have increased slightly. Approved staffing levels in 2016 were 110.65 full-time equivalent (FTE) positions, 27% lower than the high point of 152 FTE in 2008. Changes to the operating budgets from 2012 through 2016 primarily updated revenue estimates to match current projections and adjusted cost factors based on external information (e.g., required changes to state retirement contributions and health plan costs). New 2016 programmatic activities included expanded focus on community outreach and engagement, and increased focus on emergency preparedness.

During the recession, the City's Capital Improvement Plan was curtailed as revenues decreased. However, starting in 2011 and continuing through 2016, the City undertook several large capital projects to replace aging utility and street infrastructure, and began discussions on potential sites for a new combined public safety and court facility. These projects draw funding from several sources, including federal and state grants, developer contributions, utility revenue and local sources. In 2016, the City completed long-standing projects in its downtown central green space, Waterfront Park, and on a major arterial serving a neighborhood close to the main ferry terminal. These projects, many years in preparation, reflect the City's ability to deliver high-priority community projects.

The local economy began to stabilize in 2011 and has grown through 2016. However, the City does not expect to receive pre-recession levels of revenue growth in the near future. The City made difficult choices bringing recurring expenses to levels below recurring revenues and establishing prudent financial reserves. In 2016, the City reviewed and updated its financial policies, including increasing the General Fund reserve policy target to 25% of recurring revenues, or approximately \$4,000,000 in the coming years.

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**

**Statement of Net Position**

**As of December 31, 2016**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 21,066,117	\$ 13,265,307	\$ 34,331,424
Receivables - Net	1,947,251	321,590	2,268,841
Due from Other Governments	771,227	-	771,227
Inventories	117,562	60,328	177,890
Restricted Cash for Debt Service	-	1,545,482	1,545,482
Prepays	189,502	-	189,502
Unamortized Bond Insurance Costs	21,727	-	21,727
Special Assessments Receivable	118,897	1,331,159	1,450,056
Net Pension Asset	431,957	-	431,957
Depreciable Capital Assets (Net)	30,459,159	42,200,866	72,660,025
Land	61,669,961	1,796,865	63,466,826
Construction in Progress	3,585,562	588,734	4,174,296
Other Capital Assets	880,000	-	880,000
Total Assets	121,258,923	61,110,331	182,369,253
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Charge on Debt Refunding	252,716	-	252,716
Deferred Charge on Pensions	957,953	559,135	1,517,088
Total Deferred Outflows of Resources	1,210,669	559,135	1,769,804
Total Assets and Deferred Outflows of Resources	\$ 122,469,591	\$ 61,669,466	\$ 184,139,057
<b>LIABILITIES</b>			
Accounts Payable	\$ 1,080,893	\$ 629,634	\$ 1,710,528
Accrued Expenses	464,830	250,430	715,260
Unearned Revenue	-	289,437	289,437
Compensated Absences	446,376	349,062	795,437
Special Assessment Debt with Governmental Commitment	261,545	-	261,545
Net Pension Liability	3,921,322	3,089,164	7,010,486
Non-Current Liabilities Due Within One Year	2,004,665	1,195,093	3,199,758
Non-Current Liabilities Due in More Than One Year	9,196,265	13,273,300	22,469,566
Total Liabilities	17,375,897	19,076,120	36,452,017
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflows on Pensions	97,011	65,822	162,833
<b>NET POSITION</b>			
Net Investment in Capital Assets	89,807,348	30,512,195	120,319,543
Restricted for:			
Debt Service	166,498	1,545,482	1,711,980
Public Safety	56,846	-	56,846
PEG Capital	131,817	-	131,817
Economic Development	252,673	-	252,673
Transportation	993,756	-	993,756
Other Purposes	25,137	-	25,137
Unrestricted	13,562,609	10,469,847	24,032,456
Total Net Position	\$ 104,996,684	\$ 42,527,524	\$ 147,524,207

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, 2016**

	Net Expense/Revenue and Changes in Net Position				
	Primary Government				
Primary Government:	Program Revenues		Business-Type		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General Government	\$ 4,374,377	\$ 971,316	\$ -	\$ -	\$ (3,403,061)
Judicial	638,107	412	-	-	(637,695)
Public Safety	4,602,079	64,386	146,210	-	(4,391,483)
Physical Environment	647,509	17,545	170,245	67,993	(391,725)
Transportation	3,707,127	37,575	528,870	1,536,532	(1,604,150)
Health and Human Services	242,279	-	-	-	(242,279)
Economic Environment	1,481,283	178,606	-	-	(1,302,677)
Culture and Recreation	591,634	527	20,895	426,633	(143,579)
Interest on Long Term Debt	537,902	-	-	-	(537,902)
Total Government Activities	16,822,297	1,270,367	866,221	2,031,158	(12,654,551)
Business-Type Activities:					
Water	1,391,412	1,174,949	-	208,610	(7,852)
Sewer	3,416,595	3,749,774	-	374,119	707,297
Storm and Surface Water Management	1,794,057	1,826,811	5,339	-	38,093
Building and Development Services	2,119,641	1,649,846	-	-	(469,795)
Total Business-Type Activities	8,721,706	8,401,381	5,339	582,729	267,742
Total Primary Government	\$ 25,544,003	\$ 9,671,747	\$ 871,560	\$ 2,613,887	\$ (12,386,808)
General Revenues:					
Property Taxes Levied for General Purposes					\$ 7,104,654
Property Taxes Levied for Other Purposes					607,853
Sales and Use Taxes					4,261,583
Business and Occupation Taxes					4,601,715
Excise Taxes					3,335,908
Penalties and Interest					20,050
Unrestricted Investment Earnings					59,948
Grants and Contributions not Restricted to Specific Programs					121,662
Gain(Loss) on Disposal of Capital Assets					319,192
Miscellaneous					(1,533,771)
Transfers					99,114
Total General Revenues and Transfers					(629,104)
Change in Net Position					18,308,855
Net Position - Beginning					5,654,305
Net Position - Ending					99,342,379
					41,472,999
					140,815,377
					\$ 104,996,684
					\$ 42,527,524
					\$ 147,524,208

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, 2016**

	General	Streets	Real Estate Excise Tax	General Obligation Bonds	Capital Construction	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and Cash Equivalents	\$ 15,918,060	\$ 288,683	\$ 25,137	\$ 61	\$ 3,344,288	\$ 1,489,888	\$ 21,066,117
Receivables - Net	169,059	-	-	6,508	-	50,685	226,252
Inventories	9,405	108,157	-	-	-	-	117,562
Due From Other Governments	84,103	-	-	-	687,125	-	771,227
Unmatured Assessments	-	-	-	-	-	118,897	118,897
<b>Total Assets</b>	<b>\$ 16,180,627</b>	<b>\$ 396,840</b>	<b>\$ 25,137</b>	<b>\$ 6,569</b>	<b>\$ 4,031,413</b>	<b>\$ 1,659,471</b>	<b>\$ 22,300,055</b>
<b>LIABILITIES</b>							
Accounts Payable	\$ 280,384	\$ 98,770	\$ -	\$ -	\$ 652,626	\$ 48,620	\$ 1,080,399
Accrued Expenditures	342,349	64,652	-	-	-	-	407,001
<b>Total Liabilities</b>	<b>622,733</b>	<b>163,422</b>	<b>-</b>	<b>-</b>	<b>652,626</b>	<b>48,620</b>	<b>1,487,400</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable Revenues - Grants	24,932	-	-	-	453,002	-	477,934
Unavailable Revenues - Property Taxes	142,260	-	-	4,521	-	-	146,781
Unavailable Revenues - Special Assessments	-	-	-	-	-	169,582	169,582
<b>Total Deferred Inflows of Resources</b>	<b>167,191</b>	<b>-</b>	<b>-</b>	<b>4,521</b>	<b>453,002</b>	<b>169,582</b>	<b>794,297</b>
<b>FUND BALANCES</b>							
Nonspendable	68,576	108,157	-	-	-	-	176,733
Restricted	188,663	66,081	25,137	-	-	1,346,846	1,626,727
Committed	100,484	59,180	-	2,048	2,815,321	94,423	3,071,455
Assigned	-	-	-	-	110,464	-	110,464
Unassigned	15,032,979	-	-	-	-	-	15,032,979
<b>Total Fund Balances</b>	<b>15,390,702</b>	<b>233,418</b>	<b>25,137</b>	<b>2,048</b>	<b>2,925,785</b>	<b>1,441,269</b>	<b>20,018,358</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 16,180,627</b>	<b>\$ 396,840</b>	<b>\$ 25,137</b>	<b>\$ 6,569</b>	<b>\$ 4,031,413</b>	<b>\$ 1,659,471</b>	<b>\$ 22,300,055</b>

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, 2016**

Ending fund balance - governmental funds	\$ 20,018,358
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**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.	96,594,682
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Net pension assets resulting from annual contributions in excess of required contributions are not financial resources and, therefore, are deferred in the governmental funds.	431,957
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**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	252,716
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**Other long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the governmental funds.**

Unamortized Bond Insurance Costs	21,727
Accounts Receivable - Earned but Unavailable	1,720,999

**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 - Grants	477,934
Deferred Inflows of Resources - Special Assessments	169,582
Deferred Inflows of Resources - Property Taxes	146,781

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

Accrued expenses	(58,323)
Compensated absences	(446,376)
Long-term liabilities	(11,462,475)
Net Pension Liability	(3,921,322)

**Amounts reported as deferred outflows and inflows of resources related to pensions will be amortized and recognized as components of pension expense in future years.**

Deferred outflow of resources related to pensions	957,953
Deferred inflow of resources related to pensions	(97,011)

<b>Net Position of Major Governmental Activities</b>	<b>\$ 104,996,684</b>
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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, 2016**

	General	Streets	Real Estate Excise Tax	General Obligation Bond	Capital Construction	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Property Taxes	\$ 7,115,240	\$ -	\$ -	\$ 607,853	\$ -	\$ -	\$ 7,723,093
Other Taxes	7,659,879	908,419	2,882,184	-	-	622,584	12,073,066
Fees and Fines	89,808	-	-	-	-	-	89,808
Licenses and Permits	644,155	33,850	-	-	-	-	678,005
Intergovernmental	674,162	528,870	-	-	1,642,700	-	2,845,732
Charges for Services	415,385	3,849	-	-	420	176,314	595,967
Interest and Investment Revenue	114,394	-	137	-	-	7,131	121,662
Other Revenues	94,914	-	-	-	2,690	87,913	185,517
<b>Total Revenues</b>	<b>16,807,936</b>	<b>1,474,988</b>	<b>2,882,321</b>	<b>607,853</b>	<b>1,645,810</b>	<b>893,943</b>	<b>24,312,850</b>
<b>EXPENDITURES</b>							
<b>Current</b>							
General Government	3,631,316	407,859	-	-	-	-	4,039,175
Judicial	645,916	-	-	-	-	-	645,916
Public Safety	4,340,215	64,973	-	-	-	-	4,405,188
Physical Environment	604,430	44,811	-	-	-	-	649,242
Transportation	-	2,118,631	-	-	-	3,574	2,122,205
Health and Human Services	242,234	-	-	-	-	-	242,234
Economic Environment	1,336,556	-	-	-	-	157,680	1,494,236
Culture and Recreation	511,560	31	-	-	-	-	511,590
Debt Service - Principal	49,000	-	-	2,133,665	-	37,364	2,220,029
Debt Service - Interest	5,770	-	-	516,836	-	13,621	536,227
Capital Outlay	568,948	198,197	-	-	3,436,440	-	4,203,584
<b>Total Expenditures</b>	<b>11,935,945</b>	<b>2,834,502</b>	<b>-</b>	<b>2,650,500</b>	<b>3,436,440</b>	<b>212,238</b>	<b>21,069,625</b>
<b>Excess/(deficiency) of Revenue over Expenditures</b>	<b>4,871,991</b>	<b>(1,359,514)</b>	<b>2,882,321</b>	<b>(2,042,647)</b>	<b>(1,790,630)</b>	<b>681,705</b>	<b>3,243,225</b>
<b>OTHER FINANCING SOURCES/(USES)</b>							
Disposition of Capital Assets	416,751	13,265	-	-	-	-	430,016
Transfers In	-	1,073,600	-	2,043,000	4,090,018	-	7,206,618
Transfers Out	(4,953,253)	-	(2,882,468)	-	-	-	(7,835,721)
<b>Total Other Financing Sources/Uses</b>	<b>(4,536,502)</b>	<b>1,086,865</b>	<b>(2,882,468)</b>	<b>2,043,000</b>	<b>4,090,018</b>	<b>-</b>	<b>(199,087)</b>
<b>Net Change in Fund Balance</b>	<b>335,489</b>	<b>(272,648)</b>	<b>(147)</b>	<b>353</b>	<b>2,299,387</b>	<b>681,705</b>	<b>3,044,137</b>
<b>Fund Balances - Beginning</b>	<b>15,055,214</b>	<b>506,066</b>	<b>25,284</b>	<b>1,695</b>	<b>626,397</b>	<b>759,564</b>	<b>16,974,221</b>
<b>Fund Balances - Ending</b>	<b>\$ 15,390,702</b>	<b>\$ 233,418</b>	<b>\$ 25,137</b>	<b>\$ 2,048</b>	<b>\$ 2,925,785</b>	<b>\$ 1,441,269</b>	<b>\$ 20,018,358</b>

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, 2016**

Net change in fund balances - Total governmental funds \$ 3,044,137

*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	\$ 4,203,584	
Less current year depreciation	(2,377,015)	
Net book value of capital assets disposed	(45,000)	
		1,781,569

Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenues in the funds.	(1,592,161)
--	-------------

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.	2,220,029
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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.	109,817
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Pension expense reported in the governmental funds includes the annual required contributions. In the Statement of Activities, pension expense includes the change in the net pension liability, and related change in pension amounts for deferred outflows of resources and deferred inflows of resources.	90,914
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Change in Net Position of Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; text-align: right;">\$ 5,654,305</div>
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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, 2016**

Business-Type Activities - Enterprise Funds

	Water	Sewer	Storm and Surface Water Management	Building and Development Services	Total
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and Cash Equivalents	\$ 6,875,248	\$ 4,488,521	\$ 1,557,410	\$ 344,127	\$ 13,265,307
Receivables - Net	14,256	258,351	48,983	-	321,590
Inventories	43,875	2,251	14,202	-	60,328
Subtotal - Current Assets	<u>6,933,380</u>	<u>4,749,123</u>	<u>1,620,595</u>	<u>344,127</u>	<u>13,647,225</u>
<b>Long-Term Assets</b>					
Restricted Cash for Debt Service	-	1,545,482	-	-	1,545,482
Special Assessments Receivable	-	1,331,159	-	-	1,331,159
Depreciable Capital Assets (Net)	11,641,092	20,737,033	9,822,741	-	42,200,866
Land	637,436	834,874	324,555	-	1,796,865
Construction in Progress	70,366	182,229	336,140	-	588,734
Subtotal - Long-Term Assets	<u>12,348,894</u>	<u>24,630,776</u>	<u>10,483,436</u>	<u>-</u>	<u>47,463,106</u>
Total Assets	<u>19,282,274</u>	<u>29,379,899</u>	<u>12,104,031</u>	<u>344,127</u>	<u>61,110,331</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred Charge on Pensions	68,864	143,810	124,265	222,196	559,135
Combined Assets and Deferred Outflows of Resources	<u>\$ 19,351,138</u>	<u>\$ 29,523,709</u>	<u>\$ 12,228,296</u>	<u>\$ 566,323</u>	<u>\$ 61,669,466</u>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts Payable	68,973	54,100	478,736	27,826	629,634
Accrued Expenses	24,592	90,648	53,938	81,252	250,430
Unearned Revenue	-	-	-	289,437	289,437
Current Portion of Long-Term Debt	-	1,144,390	50,703	-	1,195,093
Subtotal - Current Liabilities	<u>93,564</u>	<u>1,289,138</u>	<u>583,377</u>	<u>398,514</u>	<u>2,364,594</u>
<b>Long-Term Liabilities</b>					
Compensated Absences	151,444	74,476	45,097	78,046	349,062
Net Pension Liability	382,782	795,008	683,075	1,228,299	3,089,164
Bonds, Loans, and Other Debt	-	12,483,099	790,201	-	13,273,300
Subtotal - Long-Term Liabilities	<u>534,226</u>	<u>13,352,583</u>	<u>1,518,373</u>	<u>1,306,345</u>	<u>16,711,526</u>
Total Liabilities	<u>627,790</u>	<u>14,641,721</u>	<u>2,101,750</u>	<u>1,704,859</u>	<u>19,076,120</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflow on Pensions	8,156	16,939	14,555	26,172	65,822
<b>NET POSITION</b>					
Net investment in Capital Assets	12,348,894	8,126,646	10,036,655	-	30,512,195
Restricted for:					
Debt Service	-	1,545,482	-	-	1,545,482
Unrestricted	6,366,298	5,192,921	75,336	(1,164,708)	10,469,847
Total Net Position	<u>\$ 18,715,192</u>	<u>\$ 14,865,049</u>	<u>\$ 10,111,991</u>	<u>\$ (1,164,708)</u>	<u>\$ 42,527,524</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, 2016**

	Water	Sewer	Storm and Surface Water Management	Building and Development Services	Totals
<b>OPERATING REVENUES</b>					
Charges for Services	\$ 1,174,949	\$ 3,749,774	\$ 1,826,811	\$ 1,649,846	\$ 8,401,381
Total Operating Revenues	1,174,949	3,749,774	1,826,811	1,649,846	8,401,381
<b>OPERATING EXPENSES</b>					
Personal Services	611,096	1,189,310	942,774	1,762,458	4,505,638
Contractual Services	132,707	87,953	183,426	249,710	653,797
Utilities	109,596	230,500	7,358	1,501	348,956
Repairs and Maintenance	53,964	114,343	118,272	12,424	299,004
Miscellaneous Expense	8,430	9,980	51,104	4,895	74,410
Other Supplies and Expenses	164,831	618,556	241,741	31,264	1,056,392
Insurance Claims and Expenses	19,271	38,060	29,815	57,389	144,535
Depreciation	291,517	930,280	217,107	-	1,438,903
Total Operating Expenses	1,391,412	3,218,982	1,791,597	2,119,641	8,521,632
Operating Income (Loss)	(216,462)	530,792	35,214	(469,795)	(120,252)
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Interest & Investment Revenue	37,362	91,314	8,464	-	137,141
Miscellaneous Revenue	9,000	45,939	5,614	1,242	61,795
Miscellaneous Expense	(30,314)	(2,963)	(2,640)	-	(35,917)
Interest Expense	-	(197,614)	(2,460)	-	(200,073)
Total Non-Operating Revenues (Expenses)	16,048	(63,324)	8,980	1,242	(37,055)
Net income (loss) before contributions and transfers	(200,414)	467,468	44,193	(468,554)	(157,307)
Capital Contributions	208,610	374,119	-	-	582,729
Transfers In	8,750	-	355,354	265,000	629,104
Change in Net Position	16,946	841,586	399,547	(203,554)	1,054,525
Net Position - Beginning	18,698,246	14,023,463	9,712,444	(961,154)	41,472,999
Total Net Position - Ending	\$ 18,715,192	\$ 14,865,049	\$ 10,111,991	\$ (1,164,708)	\$ 42,527,524

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

# CITY OF BAINBRIDGE ISLAND, WASHINGTON

## Statement of Cash Flows

### Proprietary Funds

As of December 31, 2016

	Water	Sewer	Storm and Surface Water Management	Building and Development Services	Total
Cash Flows from Operating Activities					
Receipts from Customers	\$ 1,213,997	\$ 3,761,865	\$ 2,094,394	\$ 1,708,071	\$ 8,778,328
Payments to Suppliers	(471,064)	(1,110,868)	(178,537)	(347,022)	(2,107,491)
Payments to Employees	(594,169)	(1,186,065)	(964,316)	(1,734,213)	(4,478,762)
Net Cash Provided (Used) by Operating Activities	148,764	1,464,933	951,541	(373,164)	2,192,074
Cash Flows from Non-Capital Financing Activities					
Transfers from Other Funds	8,750	-	-	265,000	273,750
Non-Capital Grant Proceeds	-	-	25,000	-	25,000
Net Cash Provided (Used) by Non-Capital Financing Activities	8,750	-	25,000	265,000	298,750
Cash Flows from Capital and Related Financing Activities					
Transfers from Other Funds	-	-	355,354	-	355,354
Proceeds from Sale of Capital Assets	-	9,850	276	-	10,126
Capital Contributions	208,610	374,119	-	-	582,729
Capital Grants	-	-	180,824	-	180,824
Special Assessment Receipts	-	193,664	-	-	193,664
Purchase/Acquisition of Capital Assets	(401,092)	(569,283)	(1,106,191)	-	(2,076,565)
Principal Paid on Capital Debt	-	(1,139,390)	(50,703)	-	(1,190,093)
Interest Paid on Capital Debt	-	(210,497)	(2,487)	-	(212,985)
Net Cash Provided (Used) by Capital and Related Financing Activities	(192,482)	(1,341,537)	(622,928)	-	(2,156,947)
Cash Flows from Investing Activities					
Interest, Dividends and Rents	4,190	32,792	8,464	1,241	46,688
Net Cash Provided (Used) by Investing Activities	4,190	32,792	8,464	1,241	46,688
Net Increase (Decrease) in Cash and Cash Equivalents	(30,778)	156,188	362,078	(106,923)	380,565
Cash and Cash Equivalents, January 1	6,906,026	5,877,815	1,195,332	451,050	14,430,223
Cash and Cash Equivalents, December 31	\$ 6,875,248	\$ 6,034,003	\$ 1,557,410	\$ 344,127	\$ 14,810,788

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

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**As of December 31, 2016**

	Water	Sewer	Storm and Surface Water Management	Building and Development Services	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	\$ 291,517	930,280	217,107	-	1,438,904
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Depreciation	1,824	7,778	166,100	-	175,702
(Increase) Decrease in Accounts Receivable	17,765	2,963	2,639	-	23,367
(Increase) Decrease in Inventory	-	-	200,485	-	200,485
(Increase) Decrease in Due from Other Governments	(28,559)	(55,137)	(43,653)	(85,156)	(212,505)
(Increase) Decrease in Deferred Charge on Pensions	28,861	(17,984)	397,954	11,075	419,906
Increase (Decrease) in Accounts Payable	317	630	552	919	2,418
Increase (Decrease) in Compensated Absences	804	(2,204)	3,675	3,285	5,560
Increase (Decrease) in Other Current Payables	-	-	-	62,061	62,061
Increase (Decrease) in Unearned Revenue	89,262	149,262	96,033	230,328	564,885
Increase (Decrease) in Net Pension Liability	(36,565)	(81,447)	(74,887)	(125,880)	(318,779)
Increase (Decrease) in Deferred Inflow on Pensions	-	-	(49,678)	-	(49,678)
Increase (Decrease) in Post-Closure Landfill Liability					
Net Cash Provided (Used) by Operating Activities	\$ 148,764	\$ 1,464,933	\$ 951,541	\$ (373,163)	\$ 2,192,075

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, 2016**

<b>ASSETS</b>	<u>Agency Funds</u>
Cash and Cash Equivalents	\$ 474,534
Receivables - Net	994
Total Assets	<u>\$ 475,528</u>
 <b>LIABILITIES</b>	
Custodial Accounts Payable	\$ 475,528
Total Liabilities	<u>\$ 475,528</u>

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

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended December 31, 2016**

**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 City has no component units.

**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 although interfund services provided and used are not removed. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities relying primarily 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, liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of improving or deteriorating financial position of the City. 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 are offset by program revenues. Direct expenses are those 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 restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items 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 are 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 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 thus, 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 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 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 roads 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 as well as 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.

## **Capital Construction Fund**

This fund accounts for financial resources used for the acquisition or construction of major capital facilities not financed through Proprietary Funds.

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 are recovered through user charges. Costs not covered by user charges are funded through transfers from the general fund. 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**:

The fiduciary fund is an agency fund, is custodial in nature (assets always equal liabilities) and does not involve the measurement of results of operations or changes in net position. Within this fund are a number of sub-funds representing monies upon which the City has either no claim or a junior claim to a third party. Included are construction retainage accounts, performance bonds and guarantees, court trust funds, 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, followed by unrestricted resources as needed. In addition, it is the City's policy to use the most restrictive category first when resources are available from committed, assigned, or unassigned fund balances.

## **D. Use of Estimates**

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

## **E. Budgetary Information**

### **I. 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, 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 (a) transfer appropriations between funds, (b) increase any fund's total expenditures, (c) increase any capital construction project's total budget, or (d) affect the number of authorized employee positions must be approved by the City Council. When the City Council determines, 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 the date of acquisition. At December 31, 2016, the City was holding \$36,351,439 in cash and cash equivalents which included \$21,066,117 in the governmental funds, \$14,810,788 in the proprietary funds, and \$474,534 in the fiduciary funds.

It is the City's policy to invest temporary cash surpluses. At December 31, 2016, the City was holding \$35,080,368 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 2016, the City's levy for general governmental services was \$1.15 per \$1,000 on assessed valuation of \$6,211,210,950 for a total of \$7,125,792. Levy rates for property taxes are adopted in November of each year but 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 determine 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, 2016 and 2015, the City had total taxes receivable of \$1,679,301 and \$1,557,197, respectively.

Special assessments are recorded when levied in the local improvement district (LID) debt service fund for regular LIDs and in the enterprise funds for utility LIDs. 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, 2016 and 2015, the City had \$7,380 and \$17,384, 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 on a court-ordered time payment plan or those sent to collection. This is partly because amounts levied remain subject to adjudication and possible commutation and because the State's software used by the City converts amounts owed to fee amounts set by the State. The receivable recognized for 2016 is \$685,996 (\$596,405 considered uncollectible) compared to \$1,461,124 (\$1,282,136 considered uncollectible) for 2015. This significant decrease in Municipal Court receivables reflects the Court's recent adoption of State best practices allowing a write-off policy for receivables over ten years old.

Customer accounts receivables, 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 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 \$771,227 and \$855,615 for fiscal years 2016 and 2015, 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 with the normal average cost method, which uses a weighted average cost for items in inventory rather than actual cost for each specific item.

### **5. Pensions**

For purposes of measuring the net pension asset, net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all State-sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **6. Net Pension Asset**

Net pension assets are reported when the City's proportionate share of pension assets exceeds its proportionate share of pension liabilities. For further details see Note No. 6 – Pension Plans.

### **7. 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 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 not adding 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 2016, no interest was capitalized. Total interest incurred and expensed in 2016 was \$736,175.

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.

## 8. Deferred Outflows of Resources

In addition to assets, the *statement of net position* and the governmental funds *balance sheet* will sometimes report 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 two items that qualify for reporting in this category, both on the *statement of net position*. The first item is a deferred charge on debt refunding resulting 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. The second item is the deferred outflow related to pensions. This amount represents an aggregate of items related to pensions as calculated in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The deferred outflows related to pensions will be recognized as either pension expense or a reduction in the net pension liability in future years. Details on the composition of this amount are further disclosed in Note 6 – Pension Plans.

## 9. Compensated Absences

Compensated absences are absences from work for which employees will be paid. They consist of vacation and 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, outstanding sick leave is not paid to employees upon separation from City. 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, 2016 and 2015, is as follows:**

	2016	2015
Vacation	\$586,589	\$608,266
Compensating Time	100,671	81,751
Standby Time	36,676	29,010
Floating Holidays	71,501	69,299
<b>Total</b>	<b>\$795,437</b>	<b>\$788,326</b>

## 10. Net Pension Liability

Net pension liabilities are reported when the City's proportionate share of pension liabilities exceeds its proportionate share of pension assets. For further details see Note No. 6 – Pension Plans.

## **11. 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 Liabilities.

## **12. Deferred Inflows of Resources**

In addition to liabilities, the *statement of net position* and the governmental funds *balance sheet* will sometimes report 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, will not be recognized as revenue until that time.

Deferred inflows of resources on the *statement of net position* represent amounts related to an aggregate of pension items calculated in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The deferred inflows related to pensions will be recognized as a reduction to pension expense in future years. Details on the composition of this amount are further disclosed in Note No. 6 – Pension Plans.

Deferred inflows of resources on the governmental funds *balance sheet* include the following items not received within 60 days of year-end:

- Grants in the general fund and the capital construction fund.
- Delinquent property taxes in the general fund and the bond fund.
- Special assessments as deferred inflows in the LID bond fund.

## **13. 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 largely based 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. The general fund is the only fund that may show a positive unassigned fund balance although other funds may report a negative unassigned fund balance.

Fund balance constraints as listed in aggregate on the governmental funds *balance sheet* at December 31, 2016, were as follows:

	General Fund	Street Fund	Real Estate Excise Tax Fund	GO Bond Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Nonspendable:</b>							
Inventory	\$ 9,405	\$108,157	\$ -	\$ -	\$ -	\$ -	\$ 117,562
Long-term Receivables	59,171	-	-	-	-	-	59,171
<b>Total Nonspendable</b>	<b>\$ 68,576</b>	<b>\$108,157</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 176,733</b>
<b>Restricted:</b>							
Police Investigations	\$ 31,846	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,846
Police Marine	25,000	-	-	-	-	-	25,000
PEG Capital	131,817	-	-	-	-	-	131,817
Real Estate Excise Tax	-	-	25,137	-	-	-	25,137
Hotel/Motel Tax	-	-	-	-	-	252,673	252,673
Transportation Benefit Tax	-	66,081	-	-	-	750,458	816,539
Transportation Impact Fees	-	-	-	-	-	177,217	177,217
LID Collections	-	-	-	-	-	166,498	166,498
<b>Total Restricted</b>	<b>\$ 188,663</b>	<b>\$ 66,081</b>	<b>\$25,137</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,346,846</b>	<b>\$ 1,626,727</b>
<b>Committed:</b>							
Capital Impr. Opportunity Res.	\$ 406	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 406
Public Art	100,073	-	-	-	-	-	100,073
Street Fund	-	59,180	-	-	-	-	59,180
Affordable Housing	5	-	-	-	-	-	5
Floor Area Ratio - Public Amen.	-	-	-	-	-	14,066	14,066
Floor Area Ratio - Agriculture	-	-	-	-	-	80,357	80,357
GO Bond Fund	-	-	-	2,048	-	-	2,048
Construction Fund	-	-	-	-	2,815,321	-	2,815,321
<b>Total Committed</b>	<b>\$ 100,484</b>	<b>\$ 59,180</b>	<b>\$ -</b>	<b>\$ 2,048</b>	<b>\$2,815,321</b>	<b>\$ 94,423</b>	<b>\$ 3,071,455</b>
<b>Assigned:</b>							
Construction Fund	\$ -	\$ -	\$ -	\$ -	\$ 110,464	\$ -	\$ 110,464
<b>Total Assigned</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 110,464</b>	<b>\$ -</b>	<b>\$ 110,464</b>
<b>Unassigned:</b>							
General Fund	\$ 15,032,979	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,032,979
<b>Total Unassigned</b>	<b>\$ 15,032,979</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 15,032,979</b>
<b>Total Fund Balance</b>	<b>\$ 15,390,702</b>	<b>\$233,418</b>	<b>\$25,137</b>	<b>\$ 2,048</b>	<b>\$2,925,785</b>	<b>\$ 1,441,269</b>	<b>\$ 20,018,358</b>

The City Council passed, via resolution, a general fund stabilization policy in the form of an emergency reserve. This reserve is included in the general fund unassigned balance above.



The emergency reserve was funded with General Fund property sales and available fund balance and has a balance of \$1,020,446 at December 31, 2016. The reserve was set up to provide for unexpected emergencies not reasonably accommodated in the current budget. 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.

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

In addition to the general fund stabilization arrangement set up as the emergency reserve, in 2016 the City Council adopted, via resolution, an updated general fund minimum fund balance policy. This updated policy was defined as 25% of general fund ongoing revenues. The resulting minimum fund balance must exclude any funds held in reserve or otherwise committed. At December 31, 2016 and 2015, the City-Council-specified goal was \$4,114,130 and \$3,000,000, respectively. Unassigned general fund balance at December 31, 2016 and 2015, was \$15,032,979 and \$13,190,306, or \$14,012,533 and \$11,569,860 after reserves.

## **G. Deficit Net Position**

During 2015, the City implemented GASB Statements No. 68 and 71 related to pensions. As a result of this change the building and development services fund had a deficit net position of \$(1,164,708) at December 31, 2016. City management expects this deficit to continue into the foreseeable future as the City transfers only enough cash into the fund to offset expenses, current payables and accruals not covered through user fees. At this time the fund's cash position is sufficient to cover the current costs related to the fund's operations.

## **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 not 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 2016, all city funds were invested in short-term cash equivalent investments 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 qualified external investment pools, and investments are reported at amortized cost which approximates the fair value of the pools' shares. None of these pools limit or restrict withdrawals except the KCTIP which requires one day's notice.

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 neither registered with the SEC nor rated by financial rating agencies. 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 day's 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, 2016, the City held the following investments (at amortized cost) and cash deposits:

Short-Term Investment held in the Washington State Treasurer's Investment Pool	\$ 7,497,790
Short-Term Investment held in the Kitsap County Treasurer's Investment Pool	26,508,952
Short-Term Investment held in Umpqua Bank's Governmental Investment Pool	1,073,626
<b>Total Investments</b>	<b>\$35,080,368</b>
Cash deposits held by the Kitsap County Treasurer	45,704
Cash deposits at Umpqua Bank	1,225,367
<b>Total cash and cash equivalents as reported on the financial statements</b>	<b>\$36,351,439</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 (a) investment instrument safekeeping with the trust department of the investment firm or bank, or a third-party custodian, and (b) 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 regular non-voted 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 2016 levy rates were \$.38 and \$.95, respectively.

In addition to the preceding limit, RCW 84.55.010 also limits the growth of regular property taxes to the lesser of 1% per year or the increase in the Implicit Price Deflator (IPD). If the IPD increase is less than one percent the City may still increase the levy up to the one percent limit by passing an ordinance demonstrating a substantial need for the increase. If assessed valuations increase by more than 1%, 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. The limit may also be exceeded by a simple majority of the voters.

A secondary limitation on property tax increases is imposed by Article 7 of the Washington State Constitution. This article limits the total regular property taxes to 1% 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 1% 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, 2016, was as follows:

Governmental Activities	Beginning Balance 01/01/2016	Increases	Decreases	Ending Balance 12/31/2016
Capital Assets not depreciated:				
Land	\$ 63,633,748	\$ -	\$ (1,963,787)	\$ 61,669,961
Construction In Progress	1,635,926	1,949,636	-	3,585,562
Development Rights (Intangible)	880,000	-	-	880,000
<b>Total Capital Assets not depreciated</b>	<b>\$ 66,149,675</b>	<b>\$ 1,949,636</b>	<b>\$ (1,963,787)</b>	<b>\$ 66,135,523</b>
Capital Assets, Depreciable:				
Buildings	\$ 16,400,829	\$ -	\$ -	\$ 16,400,829
Machinery and Equipment	6,651,767	437,730	-	7,089,497
Infrastructure	39,334,761	1,816,218	-	41,150,979
<b>Total Capital Assets, depreciable</b>	<b>\$ 62,387,357</b>	<b>\$ 2,253,948</b>	<b>\$ -</b>	<b>\$ 64,641,305</b>
Less Accumulated Depreciation for:				
Buildings	\$ (6,701,898)	\$ (433,012)	\$ -	(7,134,910)
Machinery and Equipment	(5,402,738)	(327,323)	-	(5,730,061)
Infrastructure	(19,700,497)	(1,616,680)	-	(21,317,177)
<b>Total Accumulated Depreciation</b>	<b>\$ (31,805,133)</b>	<b>\$ (2,377,015)</b>	<b>\$ -</b>	<b>\$ (34,182,148)</b>
<b>Total Capital Assets, depreciable, net</b>	<b>\$ 30,582,224</b>	<b>\$ (123,066)</b>	<b>\$ -</b>	<b>\$ 30,459,157</b>
<b>Total Governmental Activities Capital Assets, net</b>	<b>\$ 96,731,898</b>	<b>\$ 1,826,569</b>	<b>\$ (1,963,787)</b>	<b>\$ 96,594,680</b>
Business-Type Activities	Beginning Balance 01/01/2016	Increases	Decreases	Ending Balance 12/31/2016
Capital Assets not depreciated:				
Land	\$ 1,796,865	\$ -	\$ -	\$ 1,796,865
Construction In Progress	171,332	417,402	-	588,735
<b>Total Capital Assets not depreciated</b>	<b>\$ 1,968,198</b>	<b>\$ 417,402</b>	<b>\$ -</b>	<b>\$ 2,385,600</b>
Capital Assets, depreciable:				
Buildings	\$ 40,619	\$ 14,109	\$ -	\$ 54,728
Computer Software (Intangible)	32,365	-	-	32,365
Machinery and Equipment	1,658,257	249,215	-	1,907,471
Infrastructure	62,019,308	1,214,080	-	63,233,388
<b>Total Capital Assets, depreciable</b>	<b>\$ 63,750,549</b>	<b>\$ 1,477,403</b>	<b>\$ -</b>	<b>\$ 65,227,952</b>
Less accumulated depreciation for:				

Buildings	\$ (11,829)	\$ (1,150)	\$ -	\$ (12,979)
Computer Software	(32,365)	-	-	(32,365)
Machinery and Equipment	(1,673,382)	(53,029)	-	(1,726,411)
Infrastructure	(19,870,607)	(1,384,724)	-	(21,255,331)
<b>Total Accumulated Depreciation</b>	<b>\$ (21,588,183)</b>	<b>\$ (1,438,903)</b>	<b>\$ -</b>	<b>\$ (23,027,086)</b>
<b>Total Capital Assets, depreciable, net</b>	<b>\$ 42,162,366</b>	<b>\$ 38,500</b>	<b>\$ -</b>	<b>\$ 42,200,866</b>
<b>Total Business-Type Activities Capital Assets, net</b>	<b>\$ 44,130,564</b>	<b>\$ 455,903</b>	<b>\$ -</b>	<b>\$ 44,586,466</b>

2016 depreciation expense was charged to the functions of the city as follows:

<b>Governmental Activities</b>	<b>2016</b>	<b>2015</b>
General Government	\$ 371,781	\$ 370,616
Judicial	2,218	2,218
Public Safety	173,684	165,519
Physical Environment	4,324	4,324
Transportation	1,551,194	1,636,109
Economic Environment	-	-
Culture and Recreation	273,814	266,547
<b>Total Depreciation - Governmental Activities</b>	<b>\$ 2,377,015</b>	<b>\$ 2,445,333</b>
<b>Business-Type Activities</b>	<b>2016</b>	<b>2015</b>
Water Utility	\$ 291,517	\$ 294,481
Sewer Utility	930,280	1,040,217
Storm and Surface Water Management Utility	217,107	200,334
Building and Development Services	-	-
<b>Total Depreciation - Business-Type Activities</b>	<b>\$ 1,438,903</b>	<b>\$ 1,535,032</b>

## **B. Construction Commitments**

At December 31, 2016, the City had no material contractual construction commitments outstanding.

## **NOTE 6 – PENSION PLANS**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement No. 68, Accounting and Financial Reporting for Pensions for the year 2016:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$ (7,010,484)
Pension assets	\$ 431,957
Deferred outflows of resources	\$ 1,517,087
Deferred inflows of resources	\$ (162,833)
Pension expense/expenditures	\$ 850,541

## **State Sponsored 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 and defined contribution retirement plans. The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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 98540-8380

The DRS CAFR may also be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

### **Public Employees' Retirement System (PERS)**

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least 5 years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

#### Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the State Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	0.00%
<b>Total</b>	<b>11.18%</b>	<b>6.00%</b>

\* For employees participating in JBM, the contribution rate was 12.26%.

The City's actual contributions to the plan were \$350,071 for the year ended December 31, 2016.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's AFC times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least 5 years of service credit. Retirement before age 65 is considered an early retirement. PERS

Plan 2/3 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 benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 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 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of 5% 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 credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI and capped at 3% annually), and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing 5 years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after 5 years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership with the opportunity to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% with a choice of 6 options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

### Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	0.00%
Administrative Fee	0.18%	0.00%
Employee PERS Plan 3	0.00%	varies
<b>Total</b>	<b>11.18%</b>	<b>6.12%</b>

\* For employees participating in JBM, the contribution rate was 15.30%.

The City's actual 2016 contributions to the plan were \$454,418.

### **Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)**

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1.0% of FAS

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. Members are eligible for retirement with 5 years of service at the age of 50. Other benefits include duty and non-duty disability payments, a COLA, and a one-time, duty-related death benefit if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of 5 years of eligible service. The plan was closed to new entrants on September 30, 1977.

### Contributions

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute 0%, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2016. Employers only paid the administrative expense of 0.18% of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the FAS per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least 5 years of service credit. 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% for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI and capped at 3% annually) and a one-time duty-related death benefit if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of 5 years of eligible service.

### Contributions

The LEOFF Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18%. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

<b>LEOFF Plan 2</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	0.00%
<b>Total</b>	<b>5.23%</b>	<b>8.41%</b>
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	0.00%
<b>Total</b>	<b>8.59%</b>	<b>8.41%</b>

The City's actual 2016 contributions to the plan were \$103,365.

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 could be changed by statute. For the state fiscal year ending June 30, 2016, the State contributed \$60,375,158 to LEOFF Plan 2. For 2016, the amount recognized by the City as its proportionate share of this amount was \$64,949.

### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis, meaning each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation:

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- The nonduty disability benefits calculation for LEOFF Plan 2 active members was corrected in the valuation software.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

## Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5%. An asset sufficiency test was used to ascertain the discount rate. The test assumed a 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7% except LEOFF 2, which has assumed 7.5%). Consistent with the long-term expected rate of return, a 7.5% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS I, and TRS I plan liabilities). Based on these assumptions, it is projected that the pension plans' fiduciary net position will be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return of 7.5% was used to determine the total liability.

## Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5% was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5% approximately equals the median of the simulated investment returns over a 50-year time horizon.

## Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the following table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation:

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%



Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	<b>100%</b>	

### Sensitivity of Net Pension Liability (NPL)

The table below presents the City's proportionate share of the NPL calculated using the discount rate of 7.5%, as well as the share of the NPL calculated at 6.5% (1 percentage point lower) and 8.5% (1 percentage point higher):

	<b>1% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
PERS I	\$ 3,912,496	\$ 3,244,463	\$ 2,669,579
PERS 2/3	\$ 6,933,920	\$ 3,766,020	\$ (1,960,431)
LEOFF I	\$ (31,599)	\$ (53,194)	\$ (71,652)
LEOFF 2	\$ 1,062,157	\$ (378,763)	\$ (1,464,799)

### Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

### Pension Liabilities (Assets), Pension Expense, and Deferred Outflows or Inflows of Resources of Resources Related to Pensions

At June 30, 2016, the City reported a total pension liability of \$7,010,486 and a total pension asset of \$431,957 for its proportionate share of the net pension liabilities and assets as follows:

	<b>Liability (or Asset)</b>
PERS I	\$ 3,244,463
PERS 2/3	\$ 3,766,020
LEOFF I	\$ (53,194)
LEOFF 2	\$ (378,763)

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the City were as follows:

	<b>LEOFF 1 Asset</b>	<b>LEOFF 2 Asset</b>	<b>Total</b>
Employer's proportionate share	\$ (53,194)	\$ (378,763)	\$ (431,957)
State's proportionate share of the net pension asset associated with the employer	\$ (359,801)	\$ (246,926)	\$ (606,727)
<b>Total</b>	<b>\$ (412,994)</b>	<b>\$ (625,689)</b>	<b>\$ (1,038,683)</b>

At June 30, the City's proportionate share of the collective net pension liabilities was as follows:

	<b>Proportionate Share 6/30/15</b>	<b>Proportionate Share 6/30/16</b>	<b>Change in Proportion</b>
PERS I	0.060591%	0.060413%	(0.29%)
PERS 2/3	0.075592%	0.074798%	(1.05%)
LEOFF I	0.005108%	0.005163%	1.08%



LEOFF 2	0.063719%	0.065121%	2.20%
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Employer contribution transmittals received and processed by the DRS for each fiscal year ending June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Non-Employer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2016, the state of Washington contributed 87.12% of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88% of employer contributions. LEOFF 1 is fully funded with no further employer contributions required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2016, the state of Washington contributed 39.46% of LEOFF 2 employer contributions pursuant to RCW 41.27.726, and all other employers contributed the remaining 60.54% of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2016. The actuarial valuation date, upon which the total pension liability (asset) is based, was measured as of June 30, 2015, using update procedures to roll forward the total pension liability to the measurement date.

### Pension Expense

For the year ended December 31, 2016, the City recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 164,326
PERS 2/3	\$ 569,322
LEOFF 1	\$ (7,431)
LEOFF 2	\$ 124,324
<b>Total</b>	<b>\$ 850,541</b>

### Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ 81,690	\$ -
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ 176,690	\$ -
<b>Total</b>	<b>\$ 258,380</b>	<b>\$ -</b>

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
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Differences between expected and actual experience	\$ 200,538	\$ (124,323)
Net difference between projected and actual investment earnings on pension plan investments	\$ 460,852	\$ -
Changes of assumptions	\$ 38,925	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 90,260	\$ (25,053)
Contributions subsequent to the measurement date	\$ 223,021	\$ -
<b>Total</b>	<b>\$ 1,013,596</b>	<b>\$ (149,376)</b>

<b>LEOFF I</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ 5,407	\$ -
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ -	\$ -
<b>Total</b>	<b>\$ 5,407</b>	<b>\$ -</b>

<b>LEOFF 2</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 51,901	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ 136,105	\$ -
Changes of assumptions	\$ 1,428	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ (13,458)
Contributions subsequent to the measurement date	\$ 50,269	\$ -
<b>Total</b>	<b>\$ 239,703</b>	<b>\$ (13,458)</b>

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>PERS I</b>
2017	\$ (20,114)
2018	\$ (20,114)
2019	\$ 75,024
2020	\$ 46,894

2021	\$ -
Thereafter	\$ -
<b>Total</b>	<b>\$ 81,690</b>

<b>Year ended December 31:</b>	<b>PERS 2/3</b>
2017	\$ 32,381
2018	\$ 32,381
2019	\$ 359,586
2020	\$ 216,850
2021	\$ -
Thereafter	\$ -
<b>Total</b>	<b>\$ 641,199</b>

<b>Year ended December 31:</b>	<b>LEOFF I</b>
2017	\$ (1,117)
2018	\$ (1,117)
2019	\$ 4,683
2020	\$ 2,959
2021	\$ -
Thereafter	\$ -
<b>Total</b>	<b>\$ 5,407</b>

<b>Year ended December 31:</b>	<b>LEOFF 2</b>
2017	\$ (4,691)
2018	\$ (4,691)
2019	\$ 109,620
2020	\$ 74,587
2021	\$ 1,152
Thereafter	\$ -
<b>Total</b>	<b>\$ 175,976</b>

## **NOTE 7 – RISK MANAGEMENT**

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

Utilizing Chapter 48.62 RCW (Self-Insurance Regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created to provide a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 168 members.

New WCIA members initially contract for a three-year term, which automatically renews annually. Membership termination require a one-year notice. 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, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20

million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000 for all perils other than flood and earthquake, and insured above \$750,000 to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above \$250,000 to \$100 million per occurrence subject to aggregates and sublimits.

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

WCIA is fully funded by its members, who pay 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, 2016, one payment and one credit were not fully covered by insurance. In January 2015, a settlement of \$487,790 was paid in a lawsuit alleging violations of the State of Washington Public Records Act in the production of certain councilmembers' emails. In June 2015, New Cingular Wireless (formerly AT&T) was issued a credit of \$23,049 against future City utility taxes.

## **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. In prior years, the City entered into bonded indebtedness to advance refund general obligation and revenue bonds. The City issued general obligation bonds for governmental and business-type activities, which are being repaid from the applicable resources.

The City presently has one outstanding local improvement district (LID) special assessment bond, and one of its Washington State Public Works Trust Fund (PWTF) loans is designated as revenue debt while another as LID debt. All three of these debt instruments pledge 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 1.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 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 entered into for the purchase of agricultural land. This note is considered an obligation of the general government and is repaid from general government revenue sources.

Long-Term debt reported on the statements of net position at December 31, 2016, is comprised of the following:

Type of Debt or Long-Term Liability	Governmental Activities	Business-Type Activities
Unlimited Tax General Obligation Bonds	\$ 3,715,000	\$ -

Limited Tax General Obligation Bonds	6,580,000	3,845,000
Limited Tax General Obligation Long-Term Debt	283,978	5,712,095
Revenue Obligation Long-Term Debt	-	2,000,081
Local Improvement District Obligation Long-Term Debt	261,545	2,380,000
<b>Long-Term Debt analyzed in this Note below</b>	<b>10,840,523</b>	<b>13,937,176</b>
<b>Other Components of Long-Term Liabilities:</b>		
Other Post-Employment Benefits - See Note No. 14	246,795	-
Net Pension Liability - See Note No. 6	3,921,322	3,089,164
Compensated Absences - See Note No. 1.F.9.	446,376	349,061
Landfill Post-Closure Care Costs - See Note No. 9	-	394,123
Unamortized Bond Discounts and Premiums	375,157	137,096
<b>Total Long-Term Liabilities reported on the Statement of Net Position</b>	<b>\$ 15,830,172</b>	<b>\$ 17,906,620</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%	\$ 3,715,000	\$ -
Roads, Open Space and Parks/\$5,890,000	3.25 - 4.70%	3,895,000	-
Refinance City Hall and Facility Construction Bonds/\$12,630,000	3.00 - 5.00%	2,685,000	-
Wastewater Treatment Plant Upgrade Bonds/\$5,700,000	2.00 - 4.00%	-	3,845,000
<b>Total General Obligation Bonds</b>		<b>\$ 10,295,000</b>	<b>\$ 3,845,000</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>
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	830,000	215,725	235,000	127,400
2021	870,000	182,055	245,000	118,000
2022 - 2026	3,040,000	419,615	1,385,000	434,800
2027 - 2031	550,000	23,978	1,320,000	134,600
<b>Total</b>	<b>\$ 10,295,000</b>	<b>\$ 1,867,033</b>	<b>\$ 3,845,000</b>	<b>\$ 1,248,500</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>
PWTF Loan for Emergency Storm Street Repairs/\$449,632	3.00%	\$ 283,978	\$ -
PWTF Loan Storm Drain Decant Facility Design/\$179,025	0.50%	-	76,361
PWTF Loan Sewage Treatment Plant Design/\$389,215	0.50%	-	168,699
PWTF Loan Storm Drain Decant Facility Constr./\$782,000	0.50%	-	370,420
PWTF Loan Sewage Treatment Plant Constr. Loan #1/\$3,618,000	0.50%	-	1,895,610
PWTF Loan Eagle Harbor Sewer Beach Mains Design/\$383,542	0.50%	-	245,209
PWTF Loan Eagle Harbor Sewer Beach Mains Constr./\$4,167,089	0.50%	-	2,955,796
<b>Total Other General Obligation Debt</b>		<b>\$ 283,978</b>	<b>\$ 5,712,095</b>

The annual debt service requirements to maturity for Other General Obligation Debt 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>
2017	\$ 23,665	\$ 8,519	\$ 487,585	\$ 28,560
2018	23,665	7,809	487,585	26,123
2019	23,665	7,099	487,585	23,685
2020	23,665	6,390	487,585	21,247
2021	23,665	5,680	487,585	18,809
2022 - 2026	118,324	17,749	2,124,879	57,628
2027 - 2031	47,330	2,130	964,554	18,780
2032 - 2036	-	-	184,737	924
<b>Total</b>	<b>\$ 283,978</b>	<b>\$ 55,376</b>	<b>\$ 5,712,095</b>	<b>\$ 195,755</b>

Revenue 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>
PWTF Loan Sewage Treatment Plant Constr. Loan #2/\$3,564,500	0.50%	\$ -	\$ 2,000,081
<b>Total Revenue Obligation Debt</b>		<b>\$ -</b>	<b>\$ 2,000,081</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
2017	\$ -	\$ -	\$ 200,008	\$ 10,001
2018	-	-	200,008	9,000
2019	-	-	200,008	8,000
2020	-	-	200,008	7,000
2021	-	-	200,008	6,000
2022 - 2026	-	-	1,000,041	15,001
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,000,081</b>	<b>\$ 55,002</b>

Local Improvement District (LID) Obligation Long-Term Debt 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%	\$ -	\$ 2,380,000
Local Improvement District No. 22 Bonds Street Constr./\$755,300	4.56%	261,545	-
<b>Total LID Obligation Debt</b>		<b>\$ 261,545</b>	<b>\$ 2,380,000</b>

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

Year Ending	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
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	37,364	6,815	297,500	7,438
2021	37,364	5,111	297,500	5,950
2022 - 2026	74,726	5,111	892,500	8,925
<b>Total</b>	<b>\$ 261,546</b>	<b>\$ 47,706</b>	<b>\$ 2,380,000</b>	<b>\$ 53,551</b>

#### A. Changes in Long-Term Liabilities

During the year ending December 31, 2016, the following changes occurred in long-term liabilities:

	Beginning Balance Jan. 1, 2016	Additions	Reductions	Ending Balance Dec. 31, 2016	Due Within One Year
<b>Governmental Activities:</b>					
Unlimited Tax General Obligation Bonds	\$ 4,170,000	\$ -	\$ (455,000)	\$ 3,715,000	\$ 465,000

Limited Tax General Obligation Bonds	8,235,000	-	(1,655,000)	6,580,000	1,565,000
Local Improvement District Bonds	298,909	-	(37,364)	261,545	37,364
<b>Total Bonds Payable</b>	<b>12,703,909</b>	<b>-</b>	<b>(2,147,364)</b>	<b>10,556,545</b>	<b>2,067,364</b>
Land Purchase Contracts	49,000	-	(49,000)	-	-
Loans from Other Gov'ts	407,644	-	(123,666)	283,978	23,665
Compensated Absences	441,682	587,551	(582,858)	446,376	446,376
Net Pension Liability	3,346,140	575,182	-	3,921,322	-
OPEB Payable	228,780	61,046	(43,031)	246,795	46,024
Unamortized Bond Discounts & Premiums	448,173	551	(73,566)	375,157	73,015
<b>Total Governmental Activity long-term liabilities</b>	<b>\$ 17,625,327</b>	<b>\$ 1,224,331</b>	<b>\$ (3,019,485)</b>	<b>\$ 15,830,173</b>	<b>\$ 2,656,444</b>
<b>Business-Type Activities:</b>					
Limited Tax General Obligation Bonds	\$ 4,050,000	\$ -	\$ (205,000)	\$ 3,845,000	\$ 210,000
Loans from Other Gov'ts	11,077,268	-	(985,093)	10,092,175	985,093
Compensated Absences	346,644	302,610	(300,192)	349,062	280,000
Net Pension Liability	2,524,279	564,885	-	3,089,164	-
Landfill Post-Closure Liability	443,801	-	(49,678)	394,123	46,458
Unamortized Bond Discounts & Premiums	146,888	-	(9,792)	137,096	9,792
<b>Total Business-Type Activity long-term liabilities</b>	<b>\$ 18,588,881</b>	<b>\$ 867,495</b>	<b>\$ (1,549,755)</b>	<b>\$ 17,906,620</b>	<b>\$ 1,531,342</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 received \$100,000 in grant funds through an 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. The grant funds were remitted to Kitsap Credit Union (KCU) to fund loan loss reserves as part of KCU's program offering lower-than-market interest rates for energy efficiency home improvement loans. In March 2016, at the conclusion of their program, KCU returned the funds to the City in total. With the approval of Commerce, the City reprogrammed the funds using approximately half the money to install LED light bulbs in all City's street lights. Commerce approved the City to use the remaining funds, and the City is investigating several options.



## **C. Leases**

### **1. Operating Leases**

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

### **2. Capital Leases**

The City had no capital lease obligations outstanding at December 31, 2016.

## **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 5 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, 2016, 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 closed in 1977, and by the end of 2001, the City and County had completed mandated Washington State Department of Ecology 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 earlier remedial efforts fail. In 2010, the City sold a portion of the site to Bainbridge Disposal. The City retains a majority of the site as well as the related monitoring, maintenance and potential future remediation expenses.

The landfill post-closure liability of \$394,123 at December 31, 2016, represents the estimated liability for all future post-closure costs as if those costs were performed in 2016. This estimate is subject to change due to 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. These costs for 2016 were \$6,854.

Because the landfill was closed prior to 1989, no assets are 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). At this time, 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 no recorded contingent liabilities because management believes it is not probable payment will be required.

Several smaller suits not covered by the City's insurance have been filed against the City regarding land use actions. All 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.9. – Compensated Absences. However, sick or injured employees can draw on accumulated sick leave in the future. As of December 31, 2016, and 2015, the value of total accumulated sick leave was \$1,533,446 and \$1,401,225 respectively. Additionally, the City has a program encouraging employees to engage in healthy practices and rewarding them with time off. There is no requirement to pay

out accumulated “wellness” time. The value of such time at December 31, 2016 and 2015, was \$60,569 and \$65,348, 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 cleanup costs are paid by the Federal Government and/or the State of Washington. In addition, in 2006 and 2016, the City purchased a 10-year liability policy for protection against personal injury claims.

## **NOTE 11 – INTERFUND BALANCES AND TRANSACTIONS**

### **A. Interfund Balances**

The City had no interfund loans outstanding at fiscal year-ending 2016.

### **B. Interfund transfers**

Interfund transfers for the year ended December 31, 2016, were as follows:

	Transfers from General Fund	Transfers from Real Estate Excise Tax Fund	Total	Purpose of Transfer
<b>Receiving Fund:</b>				
Streets Fund	\$ 150,000	\$ 923,600	\$ 1,073,600	Operating Subsidy
General Obl. Bond Fund	84,132	1,958,868	\$ 2,043,000	Debt Service
Capital Construction Fund	4,090,018	-	\$ 4,090,018	Construction Support
Water Fund	8,750	-	\$ 8,750	Reimbursement
Storm & Surface Water Management Fund	355,354	-	\$ 355,354	Construction Support
Building & Development Services Fund	265,000	-	\$ 265,000	Operating Subsidy
<b>Total Governmental Activities</b>	<b>\$ 4,953,253</b>	<b>\$ 2,882,468</b>	<b>\$ 7,835,721</b>	

As discussed in Note No. 1.C. (Measurement Focus, Basis of Accounting and Financial Statement Presentation) the City 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 the 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.

Although the amounts above appear in the individual fund financial statements, certain transactions and related balances were 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, 2016, were as follows:

	Accounts	Taxes	Special Assessments	Due from Other Governments or Non-profits	Total
<b>Governmental Activities:</b>					
General Government	\$ 127,673	\$ 1,672,793	\$ -	\$ -	\$ 1,800,467
Public Safety	-	-	-	-	-
Transportation	-	-	169,582	483,707	653,290
Culture and Recreation	-	6,508	-	203,417	209,925
Judicial	89,591	-	-	-	89,591
Physical Environment	-	-	-	24,932	24,932
Economic Environment	-	-	-	-	-
Health and Human Service	-	-	-	59,171	59,171
<b>Total Governmental Activities</b>	<b>\$ 217,265</b>	<b>\$ 1,679,301</b>	<b>\$ 169,582</b>	<b>\$ 771,227</b>	<b>\$ 2,837,375</b>
<b>Business-Type Activities:</b>					
Water	\$ 14,256	\$ -	\$ -	\$ -	\$ 14,256
Sewer	126,767	-	1,462,743	-	1,589,510
Storm and Surface Water	48,983	-	-	-	48,983
Bldg. and Dev. Services	-	-	-	-	-
<b>Total Business-Type Activities</b>	<b>\$ 190,006</b>	<b>\$ -</b>	<b>\$ 1,462,743</b>	<b>\$ -</b>	<b>\$ 1,652,749</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, 2016, were as follows:

	Vendors	Salaries and Benefits	Other	Total
<b>Governmental Activities:</b>				
General Government	\$ 252,101	\$ 182,980	\$ -	\$ 435,081
Public Safety	27,375	141,496	-	168,871
Transportation	267,210	64,652	38,745	370,607
Culture and Recreation	484,186	-	19,083	503,269
Judicial	1,402	17,873	-	19,275
Physical Environment	-	-	-	-
Economic Environment	48,620	-	-	48,620
Health and Human Service	-	-	-	-
<b>Total Governmental Activities</b>	<b>\$ 1,080,893</b>	<b>\$ 407,001</b>	<b>\$ 57,829</b>	<b>\$ 1,545,723</b>
<b>Business-Type Activities:</b>				
Water	\$ 68,973	\$ 24,592	\$ -	\$ 93,564
Sewer	54,100	49,874	40,774	144,748
Storm and Surface Water	478,736	52,515	1,423	532,674
Building & Dev. Services	27,826	81,252	-	109,078

<b>Total Business-Type Activities</b>	<b>\$ 629,634</b>	<b>\$ 208,233</b>	<b>\$ 42,197</b>	<b>\$ 880,064</b>
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### **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.9. (Compensated Absences) and Note No. 8 (Long-Term Liabilities) 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.

#### **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 on disability as well as those retired after reaching the age requirement. As of December 31, 2016, the City's plan had two covered retirees. The plan also had one active member who is separated from City service but 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, 2016.

The following table shows the components of the City's annual OPEB cost for 2016 and the prior two years, the amounts actually contributed to the plan, and changes in the City's net OPEB.

	Fiscal Year Ending 12/31/2016	Fiscal Year Ending 12/31/2015	Fiscal Year Ending 12/31/2014
<b>Determination of Annual Required Contribution:</b>			
Normal Cost at Year End	\$ -	\$ -	\$ -
Amortization of UAAL*	72,054	75,633	79,107
Interest for Year	-	-	-
<b>Annual Required Contribution</b>	<b>\$ 72,054</b>	<b>\$ 75,633</b>	<b>\$ 79,107</b>

<b>Determination of Net OPEB Obligation:</b>			
Annual Required Contribution	\$ 72,054	\$ 75,633	\$ 79,107
Interest on Prior Year Net OPEB Obligation	10,295	9,557	8,641
Adjustment to ARC	(21,303)	(19,776)	(17,880)
<b>Annual OPEB Cost</b>	<b>\$ 61,046</b>	<b>\$ 65,414</b>	<b>\$ 69,868</b>

Contributions Made	\$ (43,031)	\$ (49,017)	\$ (49,505)
<b>Increase in Net OPEB Obligation</b>	<b>\$ 18,015</b>	<b>\$ 16,397</b>	<b>\$ 20,363</b>

Net OPEB Obligation-Beginning of Year	\$ 228,780	\$ 212,383	\$ 192,020
Net OPEB Obligation-End of Year	<b>\$ 246,795</b>	<b>\$ 228,780</b>	<b>\$ 212,383</b>

\*Unfunded Actuarial Accrued Liability (UAAL)

The City's OPEB cost, the percentage of OPEB cost contributed to the plan and the net OPEB obligation for 2016 and the eight prior years is as follows:

Fiscal Year Ending	Annual OPEB Cost	Employer Contributions	% of OPEB Cost Contributed	Net OPEB Obligation
12/31/2016	\$ 61,046	\$ 43,031	70%	\$ 246,795
12/31/2015	\$ 65,415	\$ 49,018	75%	\$ 228,780
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, 2016, the most recent calculation date, the plan was 0% funded. The accrued liability for benefits was \$773,827 and the actuarial value of the assets was \$0, resulting in a UAAL of \$773,827. 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 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. The actuarial accrued liability assumed a single retirement age of 56.24 for all active members. 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, an actuarial consulting firm, 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 Projected Unit Credit actuarial method was used to determine the actuarial accrued liability. 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.

**REQUIRED SUPPLEMENTAL INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**LEOFF I RETIREE MEDICAL BENEFITS - SCHEDULE OF FUNDING PROGRESS**

<b>Fiscal Year Ended</b>	<b>Actuarial Value of Assets</b>	<b>Accrued Liability - Entry Age</b>	<b>Unfunded Actuarial Accrued Liabilities (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
12/31/2016	\$ -	\$ 773,827	\$ 773,827	0%	\$ -	0%
12/31/2015	\$ -	\$ 812,267	\$ 812,267	0%	\$ -	0%
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%

**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Pension Plans**

City of Bainbridge Island  
Schedule of Proportionate Share of Net Pension Liability  
Public Employees Retirement System Plan I (PERS I)  
As of June 30, 2016  
Last 10 Fiscal Years \*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>The City's proportion of the net pension liability (asset)</u>	0.060413%	0.060591%	0.057710%
<u>The City's proportionate share of the net pension liability (asset)</u>	\$ 3,244,463	\$ 3,169,473	\$ 2,907,168
<u>The City's covered employee payroll in PERS I</u>	\$ 7,009,398	\$ 6,812,867	\$ 6,234,704
<u>The City's proportionate share of the net pension liability as a percentage of covered employee payroll in PERS I</u>	46.29%	46.52%	46.63%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	57.03%	59.10%	61.19%

\* This schedule is intended to show information for the last 10 years however only three years of data is available. Additional years will be shown as they become available.



**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Pension Plans**

City of Bainbridge Island  
Schedule of Employer Contributions  
Public Employees Retirement System Plan I (PERS I)  
As of December 31, 2016  
Last 10 Fiscal Years \*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Contractually required contributions (actuarially determined)</u>	\$ 350,071	\$ 310,417	\$ 269,414
<u>Contributions in relation to the contractually required contributions</u>	\$ (350,071)	\$ (310,417)	\$ (269,414)
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Covered employer payroll</u>	\$ 7,195,872	\$ 6,989,870	\$ 6,547,257
<u>Contributions as a percentage of covered employee payroll</u>	4.86%	4.44%	4.11%

\* This schedule is intended to show information for the last 10 years however only three years of data is available. Additional years will be shown as they become available.

**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Pension Plans**

City of Bainbridge Island  
Schedule of Proportionate Share of Net Pension Liability  
Public Employees Retirement Systems Plans 2 and 3 (PERS 2 and 3)  
As of June 30, 2016  
Last 10 Fiscal Years \*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>The City's proportion of the net pension liability (asset)</u>	0.074798%	0.075592%	0.071618%
<u>The City's proportionate share of the net pension liability (asset)</u>	\$ 3,766,020	\$ 2,700,945	\$ 1,447,658
<u>The City's covered employee payroll in PERS 2 and 3</u>	\$ 6,983,641	\$ 6,707,406	\$ 6,131,610
<u>The City's proportionate share of the net pension liability as a percentage of covered employee payroll in PERS 2 and 3</u>	53.93%	40.27%	23.61%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	85.82%	89.20%	93.29%

\* This schedule is intended to show information for the last 10 years however only three years of data is available. Additional years will be shown as they become available.

**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Pension Plans**

City of Bainbridge Island  
Schedule of Employer Contributions  
Public Employees Retirement Systems Plans 2 and 3 (PERS 2 and 3)  
As of December 31, 2016  
Last 10 Fiscal Years \*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Contractually required contributions (actuarially determined)</u>	\$ 454,418	\$ 384,415	\$ 321,803
<u>Contributions in relation to the contractually required contributions</u>	\$ (454,418)	\$ (384,415)	\$ (321,803)
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Covered employer payroll</u>	\$ 7,083,242	\$ 6,883,331	\$ 6,442,891
<u>Contributions as a percentage of covered employee payroll</u>	6.42%	5.58%	4.99%

\* This schedule is intended to show information for the last 10 years however only three years of data is available. Additional years will be shown as they become available.

**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Pension Plans**

City of Bainbridge Island  
Schedule of Proportionate Share of Net Pension Liability  
Law Enforcement Officers and Fire Fighters Plan I (LEOFF I)  
As of June 30, 2016  
Last 10 Fiscal Years \*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>The City's proportion of the net pension liability (asset)</u>	0.005163%	0.005108%	0.005066%
<u>The City's proportionate share of the net pension liability (asset)</u>	\$ (53,194)	\$ (61,563)	\$ (61,440)
<u>The City's covered employee payroll in LEOFF I</u>	\$ -	\$ -	\$ -
<u>The City's proportionate share of the net pension liability as a percentage of covered employee payroll in LEOFF I</u>	0.00%	0.00%	0.00%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	123.74%	127.36%	126.91%

\* This schedule is intended to show information for the last 10 years however only three years of data is available. Additional years will be shown as they become available.

The City currently has no employees participating in LEOFF I and therefore has no covered employee payroll.

# REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Pension Plans

City of Bainbridge Island  
Schedule of Proportionate Share of Net Pension Liability  
Law Enforcement Officers and Fire Fighters Plan 2 (LEOFF 2)  
As of June 30, 2016  
Last 10 Fiscal Years \*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
The City's proportion of the net pension liability (asset)	0.065121%	0.063719%	0.062773%
The City's proportionate share of the net pension liability (asset)	\$ (378,763)	\$ (654,904)	\$ (833,025)
The State of Washington's proportionate share of the net pension liability (asset) associated with the City	\$ (246,926)	\$ (433,023)	\$ (544,283)
TOTAL	<u>\$ (625,689)</u>	<u>\$ (1,087,927)</u>	<u>\$ (1,377,308)</u>
The City's covered employee payroll in LEOFF 2	\$ 1,972,785	\$ 1,849,373	\$ 1,746,908
The City's proportionate share of the net pension liability as a percentage of covered employee payroll in LEOFF 2	-19.20%	-35.41%	-47.69%
Plan fiduciary net position as a percentage of the total pension liability	106.04%	111.67%	116.75%

\* This schedule is intended to show information for the last 10 years however only three years of data is available. Additional years will be shown as they become available.

**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Pension Plans**

City of Bainbridge Island  
Schedule of Employer Contributions  
Law Enforcement Officers and Fire Fighters Plan 2 (LEOFF 2)  
As of December 31, 2016  
Last 10 Fiscal Years \*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Contractually required contributions (actuarially determined)</u>	\$ 103,365	\$ 96,865	\$ 90,284
<u>Contributions in relation to the contractually required contributions</u>	\$ (103,365)	\$ (96,865)	\$ (90,284)
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Covered employer payroll</u>	\$ 1,976,382	\$ 1,918,110	\$ 1,787,799
<u>Contributions as a percentage of covered employee payroll</u>	5.23%	5.05%	5.05%

\* This schedule is intended to show information for the last 10 years however only three years of data is available. Additional years will be shown as they become available.

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**  
**Notes to Pension Plans Required Supplementary Information**  
**For the Year Ended December 31, 2016**

**NOTE 1 – PENSION PLAN TREND DATA**

Ten-year historical trend information, when available, is presented as required supplementary information. This information is intended to help users assess each pension's funding status on a going concern basis, assess progress made in accumulating assets to pay benefits when due, and enable comparisons with other public employee retirement systems.

Analysis of the dollar amounts of plan fiduciary net position, total pension liability and net pension liability in isolation can be misleading. Providing this information over time provides historical context. Trends in the net pension liability and covered employee payroll are both affected by inflation. Expressing the net pension liability as a percentage of covered employee payroll approximately adjusts for the effects of inflation and aids in the analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the system.

The Schedule of Proportionate Share of Net Pension Liability illustrates whether the City's net position is increasing or decreasing over time relative to the entire pension system's net pension liability. It also shows the City's net pension liability over time as it relates to the City's covered employee payroll in each pension plan.

The Schedule of Employer Contributions provides historical and economic context for contributions over time as compared to the actuarially required contributions.

**NOTE 2 – CONTRIBUTIONS FOR LAW ENFORCEMENT OFFICERS AND FIRE FIGHTERS (LEOFF) PLAN I**

There is no schedule presented of employer contributions for LEOFF Plan I because there are no contributions required at this time.

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**

**Budgetary Comparison Schedule**

**General Fund**

**For the Year Ended December 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Revised	(Budgetary Basis)	Final Budget
<b>REVENUES</b>				
Property Taxes	\$ 7,052,500	\$ 7,052,500	\$ 7,115,240	\$ 62,740
Other Taxes	7,229,600	7,229,600	7,659,879	430,279
Fees and Fines	124,000	124,000	89,808	(34,192)
Licenses and Permits	581,500	581,500	644,155	62,655
Intergovernmental	300,000	300,000	674,162	374,162
Charges for Services	465,301	465,301	415,385	(49,916)
Interest	40,000	40,000	114,394	74,394
Other Revenues	77,000	77,000	94,914	17,914
Total REVENUES	15,869,901	15,869,901	16,807,936	938,035
<b>EXPENDITURES</b>				
General Government	4,403,029	4,717,001	3,631,316	1,085,685
Judicial	668,157	668,157	645,916	22,241
Public Safety	4,498,547	4,594,345	4,340,215	254,131
Physical Environment	826,132	801,477	604,430	197,046
Health and Human Services	309,131	253,200	242,234	10,966
Economic Environment	1,412,719	1,669,991	1,336,556	333,435
Culture and Recreation	296,706	542,706	511,560	31,146
Debt Service - Principal	49,000	49,000	49,000	0
Debt Service - Interest	7,824	7,824	5,770	2,053
Capital Outlay	447,000	641,995	568,948	73,048
Total EXPENDITURES	12,918,243	13,945,696	11,935,945	2,009,751
Operating Income (Loss)	2,951,658	1,924,205	4,871,991	2,947,786
<b>OTHER FINANCING SOURCES/USES</b>				
Proceeds from Sale of Capital Assets	5,000	5,000	416,751	411,751
Transfers - Out	(3,203,554)	(5,477,582)	(4,953,253)	524,329
Total OTHER FINANCING SOURCES/USES	(3,198,554)	(5,472,582)	(4,536,502)	936,080
Net Change in Fund Balance	(246,896)	(3,548,377)	335,489	3,883,866
Fund Balances -- Beginning	10,892,870	15,055,214	15,055,214	0
Total Ending Fund Balance	\$ 10,645,974	\$ 11,506,837	\$ 15,390,702	\$ 3,883,866



**CITY OF BAINBRIDGE ISLAND, WASHINGTON**

**Budgetary Comparison Schedule**

**Street Fund**

**For the Year Ended December 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Revised	(Budgetary Basis)	Final Budget
<b>REVENUES</b>				
Other Taxes	\$ 800,000	\$ 800,000	\$ 908,419	\$ 108,419
Licenses and Permits	25,000	25,000	33,850	8,850
Intergovernmental	485,000	485,000	528,870	43,870
Charges for Services	0	0	3,849	3,849
Total REVENUES	1,310,000	1,310,000	1,474,988	164,988
<b>EXPENDITURES</b>				
General Government	460,338	460,338	407,859	52,479
Public Safety	0	0	64,973	(64,973)
Physical Environment	0	0	44,811	(44,811)
Transportation	2,373,638	2,529,188	2,118,631	410,556
Culture and Recreation	0	0	31	(31)
Capital Outlay	205,000	205,000	198,197	6,803
Total EXPENDITURES	3,038,976	3,194,526	2,834,502	360,024
Operating Income (Loss)	(1,728,976)	(1,884,526)	(1,359,514)	525,012
<b>OTHER FINANCING SOURCES/USES</b>				
Proceeds from Sale of Capital Assets	0	0	13,265	13,265
Transfers - In	1,526,888	1,526,888	1,073,600	(453,288)
Total OTHER FINANCING SOURCES/USES	1,526,888	1,526,888	1,086,865	(440,023)
Net Change in Fund Balance	(202,088)	(357,638)	(272,648)	84,989
Fund Balances -- Beginning	327,088	506,066	506,066	0
Total Ending Fund Balance	\$ 125,000	\$ 148,428	\$ 233,418	\$ 84,989

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**

**Budgetary Comparison Schedule**

**Real Estate Excise Tax Fund**

**For the Year Ended December 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Revised	(Budgetary Basis)	Final Budget
REVENUES				
Other Taxes	\$ 2,000,000	\$ 2,600,000	\$ 2,882,184	\$ 282,184
Interest	0	0	137	137
Total REVENUES	2,000,000	2,600,000	2,882,321	282,321
Operating Income (Loss)	2,000,000	2,600,000	2,882,321	282,321
OTHER FINANCING SOURCES/USES				
Transfers - Out	(2,473,794)	(3,073,794)	(2,882,468)	191,326
Total OTHER FINANCING SOURCES/USES	(2,473,794)	(3,073,794)	(2,882,468)	191,326
Net Change in Fund Balance	(473,794)	(473,794)	(147)	473,647
Fund Balances -- Beginning	588,500	25,284	25,284	0
Total Ending Fund Balance	\$ 114,706	\$ (448,510)	\$ 25,137	\$ 473,647

**City of Bainbridge Island**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2016**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
National Park Service, Department Of The Interior (via Washington State Department of Archeology and Historic Preservation)	Historic Preservation Fund Grants-In-Aid	15.904	FY15-61015- 008	20,000	-	20,000	-	
<b>Highway Planning and Construction Cluster</b>								
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	TAP-0305 (20)/La-8505	68,054	-	68,054	-	
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUS-6702 (001)/LA-8238	1,315,236	-	1,315,236	-	
<b>Total Highway Planning and Construction Cluster:</b>				<b>1,383,290</b>	<b>-</b>	<b>1,383,290</b>	<b>-</b>	
<b>Highway Safety Cluster</b>								
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington State Traffic Safety Commission)	State and Community Highway Safety	20.600	None	208	-	208	-	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington State Traffic Safety Commission)	State and Community Highway Safety	20.600	None	1,706	-	1,706	-	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington State Traffic Safety Commission)	State and Community Highway Safety	20.600	None	1,382	-	1,382	-	

*The accompanying notes are an integral part of this schedule.*

**City of Bainbridge Island  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2016**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington State Traffic Safety Commission)	State and Community Highway Safety	20.600	None	446	-	446	-	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Association of Sheriffs and Police Chiefs)	State and Community Highway Safety	20.600	None	3,435	-	3,435	-	
<b>Total Highway Safety Cluster:</b>				<b>7,177</b>	<b>-</b>	<b>7,177</b>	<b>-</b>	
Region 10, Environmental Protection Agency (via Washington State Department of Fish and Wildlife)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	15-03129	24,932	-	24,932	-	
Department Of Energy (via Washington State Department of Commerce)	Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	F11-52112-007 and DOE #DE-EE0000849	48,623	-	48,623	-	
United States Coast Guard (uscg), Department Of Homeland Security (via Washington State Park and Recreation Commission)	Boating Safety Financial Assistance	97.012	3314FAS14015 3	17,817	-	17,817	-	
<b>Total Federal Awards Expended:</b>				<b>1,501,839</b>	<b>-</b>	<b>1,501,839</b>	<b>-</b>	

The accompanying notes are an integral part of this schedule.

**CITY OF BAINBRIDGE ISLAND, WASHINGTON**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2016**

**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 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. Entire program costs, including the City's portion, are usually more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**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 UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009**

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 to offer reduced interest rates to homeowners for home energy efficiency improvements. KCU has ended the loan program and in March of 2016 returned the \$100,000. The City has been approved by the grantor to use the funds on several other EECBG approved programs.

**NOTE 5 – INDIRECT COST RATE**

The City charges only direct costs to federal programs and has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

## 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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