



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, 2017 through December 31, 2017

Published July 5, 2018

Report No. 1021673





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

July 5, 2018

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 black ink that reads "Pat McCarthy". The signature is written in a cursive style.

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Bainbridge Island
Kitsap County
January 1, 2017 through December 31, 2017**

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 Cluster – 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, 2017 through December 31, 2017**

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, 2017, 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 25, 2018.

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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

June 25, 2018

**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, 2017 through December 31, 2017**

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, 2017. 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, 2017.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

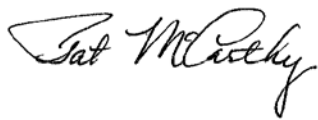
Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of 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 written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

June 25, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Bainbridge Island Kitsap County January 1, 2017 through December 31, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 15.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bainbridge Island, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General and Real Estate Excise Tax funds, 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 and required supplementary information listed on page 15 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 25, 2018 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 25, 2018

FINANCIAL SECTION

City of Bainbridge Island Kitsap County January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet Statement – Governmental Funds – 2017

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net
Position – 2017

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2017

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities – 2017

Statement of Net Position – Proprietary Funds – 2017

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2017

Statement of Cash Flows – Proprietary Funds – 2017

Statement of Net Position – Fiduciary Funds – 2017

Notes to the Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

LEOFF 1 Retiree Medical Benefits – Schedule of Funding Progress – 2017

Schedule of Proportionate Share of Net Pension Liability (PERS 1) – 2017

Schedule of Proportionate Share of Net Pension Liability (PERS 2/3) – 2017

Schedule of Proportionate Share of Net Pension Liability (LEOFF 1) – 2017

Schedule of Proportionate Share of Net Pension Liability (LEOFF 2) – 2017

Schedule of Employer Contributions (PERS 1) – 2017

Schedule of Employer Contributions (PERS 2/3) – 2017

Schedule of Employer Contributions (LEOFF 2) – 2017

Notes to Pension Plans – 2017

Budgetary Comparison Schedule – General Fund – 2017

Budgetary Comparison Schedule – Real Estate Excise Tax Fund – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

**CITY OF BAINBRIDGE ISLAND, WASHINGTON****MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

This narrative provides an overview and analysis of the financial activities for the City of Bainbridge Island (City), fiscal year ending December 31, 2017. 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 2017 by \$159,900,824. Of this amount, \$28,283,384 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 \$12,376,617 or 8%. This increase was primarily the result of an increase in the City's cash position, an increase in the net investment in capital assets and a normal decrease in long-term debt through regular debt service.
- At the close of 2017, the City's governmental funds reported combined ending fund balances of \$22,354,917; an increase of \$2,336,559, or 12%, in comparison to the prior year.
- Total revenues for governmental activities increased \$3,870,142. The increase was driven by a \$1,682,534, or 83%, increase in capital grants and contributions revenue, along with a \$1,252,746, or 10%, increase in non-property tax revenue.
- The City's total liabilities decreased by \$3,936,402, or 11%, to \$32,515,614. Governmental activities long-term obligations decreased by \$3,073,241, or 19%, and business-type activities long-term obligations decreased by \$2,217,721, or 12%.
- 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 pensions starting with fiscal year 2015. These new accounting standards resulted in pension-related debt of \$5,412,711 at year-end 2017 as compared to \$7,010,486 at year-end 2016. This change also resulted in a deficit net position in the Building and Development Service Fund of (\$1,009,902) at year-end 2017. More information about the deficit net position and pension liability can be found in Notes I.G., 6, and 8 to the financial statements.
- 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, in 2017 these funds include the General 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. 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 has one Internal Service Fund, the Equipment Rental and Revolving Fund.

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 2017 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.

SUMMARY OF NET POSITION

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Cash and Cash Equivalents	\$ 24,214,129	\$ 21,066,117	\$16,021,993	\$14,810,788	\$40,236,123	\$35,876,905
Other Assets	5,153,023	3,598,124	1,536,666	1,713,077	6,689,689	5,311,201
Capital Assets	101,019,064	96,594,682	44,547,564	44,586,466	145,566,628	141,181,148
Total Assets	130,386,216	121,258,923	62,106,224	61,110,331	192,492,440	182,369,254
Deferred Outflows of Resources	750,584	1,210,669	345,673	559,135	1,096,257	1,769,804
Other Liabilities	2,880,380	1,545,723	1,189,404	1,169,501	4,069,784	2,715,224
Long Term Debt	12,756,932	15,830,173	15,688,898	17,906,619	28,445,830	33,736,792
Total Liabilities	15,637,312	17,375,897	16,878,302	19,076,120	32,515,614	36,452,017
Deferred Inflows of Resources	786,069	97,011	386,190	65,822	1,172,259	162,833
Net Investment in Capital Assets	95,883,667	89,807,348	31,666,254	30,512,195	127,549,921	120,319,543
Restricted	2,371,477	1,626,727	1,696,042	1,545,482	4,067,519	3,172,208
Unrestricted	16,458,276	13,562,609	11,825,108	10,469,847	28,283,384	24,032,456
Total Net Position	\$114,713,420	\$104,996,684	\$45,187,405	\$42,527,524	\$159,900,824	\$147,524,208

In 2017, the total net position of the City increased \$12,376,617 or 8%. Governmental activities net position increased \$9,716,736, or 9%, due to an increase in cash and cash equivalents and a decrease in long-term debt. Business-type activities net position increased \$2,659,881 or 6%.

Total cash and cash equivalents increased by \$4,359,217, or 12%, of which \$3,148,012, or 72%, was for governmental activities and \$1,211,205 was for business-type activities. The cash increases are primarily the result of actions taken by the City to bring budgetary expenditures below revenue estimates and delays in cash-funded capital projects. In addition, tax revenue for governmental activities exceeded estimates and contributed to the cash increase.

SUMMARY OF CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Program Revenues						
Charges for Services	\$ 1,400,424	\$ 1,270,367	\$ 8,987,512	\$ 8,401,381	\$ 10,387,936	\$ 9,671,747
Operating Grants & Contributions	793,665	866,221	-	5,339	793,665	871,560
Capital Grants & Contributions	3,713,693	2,031,158	1,758,613	582,729	5,472,306	2,613,887
Total Program Revenues	5,907,782	4,167,746	10,746,125	8,989,448	16,653,907	13,157,194
General Revenues						
Property Taxes	7,894,602	7,712,507	-	-	7,894,602	7,712,507
All Other Taxes	13,451,952	12,199,206	-	-	13,451,952	12,199,206
Interest	246,493	141,712	189,802	138,566	436,294	280,278
Other Revenues	1,008,790	418,306	(22,428)	8,988	986,361	427,293
Total General Revenues	22,601,836	20,471,730	167,373	147,554	22,769,209	20,619,284
Total Revenues	28,509,618	24,639,476	10,913,498	9,137,002	39,423,116	33,776,479
Program Expenses						
General Government	5,253,896	4,912,279	-	-	5,253,896	4,912,279
Judicial	646,428	638,107	-	-	646,428	638,107
Public Safety	5,395,035	4,602,079	-	-	5,395,035	4,602,079
Physical Environment	1,138,957	647,509	-	-	1,138,957	647,509
Transportation	3,208,249	3,707,127	-	-	3,208,249	3,707,127
Health & Human Svcs	254,445	242,279	-	-	254,445	242,279
Econ. Environment	1,478,787	1,481,283	-	-	1,478,787	1,481,283
Culture & Recreation	853,345	591,634	-	-	853,345	591,634
Water	-	-	1,289,641	1,391,412	1,289,641	1,391,412
Sewer	-	-	3,176,310	3,416,595	3,176,310	3,416,595
Storm & Surface Water Management	-	-	1,778,090	1,794,057	1,778,090	1,794,057
Building & Development Svcs	-	-	2,418,715	2,119,641	2,418,715	2,119,641
Total Program Expenses	18,229,142	16,822,297	8,662,756	8,721,706	26,891,898	25,544,003
Excess/Deficiency	10,280,476	7,817,180	2,250,742	415,296	12,531,218	8,232,476
Other						
Gain(Loss) on Disposal of Assets	72,227	(1,533,771)	-	10,126	72,227	(1,523,646)
Transfers	(409,138)	(629,104)	409,138	629,104	-	-
Changes in Net Position	9,943,564	5,654,305	2,659,881	1,054,525	12,603,445	6,708,830
Beginning Net Position	104,996,684	99,342,379	42,527,524	41,472,999	147,524,208	140,815,377
Prior Period Adjustments	(226,828)	-	-	-	(226,828)	-
Ending Net Position	\$114,713,420	\$104,996,684	\$45,187,405	\$42,527,524	\$159,900,824	\$147,524,208

GOVERNMENTAL ACTIVITIES

In 2017, the net position of governmental activities increased \$9,716,736, or 9%, to \$114,713,420.

Total 2017 program revenues increased by \$1,740,036, or 42%, primarily due to revenue from capital grants and contributions, which increased by \$1,682,534 or 83% in 2017. The most significant revenue component of governmental activities is the general tax base. At \$21,346,553, taxes represent 75% of the \$28,509,618 in total revenues for 2017. Property tax is the single largest source of governmental activities revenue at \$7,894,602, or 28% of total revenues.

Governmental activities program expenses in total increased by \$1,406,845, or 8%, in 2017 as compared to 2016. Expenses increased in six of eight program categories. The largest dollar increase was in Public Safety at \$792,956 or 17% more in 2017 than 2016. The largest percentage increases were in Physical Environment at 76% or \$491,448 and Culture and Recreation, at 44% or \$261,711. Transportation-related expenses decreased by 13% or \$498,878 to \$3,208,249.

BUSINESS-TYPE ACTIVITIES

In 2017, there was an increase in net position related to business-type activities of \$2,659,881, or 6%, to \$45,187,405.

The Sewer Fund and the Storm and Surface Water Management Fund both showed balances of operating revenues over expenses resulting in positive 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 \$633,685. The Building and Development Services activity recovered 74% of its operating expenses with operating revenues, which compares closely to the 2017 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 \$210,956, before prior period adjustments, or 1%, because of an increase in tax revenue offset by a significant investment in capital projects funded through General Fund transfers to the Capital Construction Fund. This prefunding of city council authorized projects over the last two years has increased the Capital Construction Fund balance from \$626,397 at January 1, 2016 to \$4,361,129 at December 31, 2017. The General Fund ended 2017 with a fund balance of \$15,374,830.

The Water, Sewer and Storm and Surface Water Management Funds ended 2017 with unrestricted net positions of \$6,903,892, \$5,632,369, and \$298,750, respectively. The Building and Development Services fund ended 2017 with a deficit unrestricted net position of (\$1,009,902) due to the net pension liability of \$957,582. 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 2017 adopted budget anticipated a decrease of \$3,694,118, or 29%, in the budgetary fund balance during the year from \$12,617,071 to \$8,922,953. The budget anticipated relatively flat revenue trends and expenditure increases to reflect added personnel and capital investments. The revised 2017 budget used updated information and revised the beginning fund balance upward to \$15,390,702 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 actual 2017 ending fund balance was \$15,374,830, an increase of \$210,956 offset by a prior period adjustment of \$226,828.

Actual revenues exceeded the final budget by \$1,432,736. A significant portion of this was due to non-property taxes that were higher than budgeted. Actual expenditures were \$2,088,850 less than the revised

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

The increased fund balance is also the result of past reductions in programs and services as the City adjusted to the economic challenges common to many municipalities in recent years. The current revenue levels and commensurate service levels are expected to continue. To learn more about the City's budget process and economic challenges, see Note I.E. in the *notes to the financial statements*, economic and other factors below, and the required supplementary information.

CAPITAL ASSETS

The City's net invested in capital assets (net of depreciation) increased \$4,385,480 to a total of \$145,566,628 in 2017. Governmental assets represent 69% of the City's overall net investment in capital assets. Land represents 61% of the governmental activities capital assets, net of depreciation, while for the business-type activities, land represents only 4% of the capital assets, net of depreciation.

Capital assets held by the City at the end of the current and previous years are summarized as follows:

CAPITAL ASSETS						
	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$61,933,961	\$61,669,961	\$ 1,796,865	\$ 1,796,865	\$63,730,826	\$63,466,826
Buildings & Improvements	16,400,829	16,400,829	54,728	54,728	16,455,558	16,455,558
Intangible Assets	880,000	880,000	32,365	32,365	912,365	912,365
Vehicles & Equipment	8,207,168	7,089,497	696,656	1,907,471	8,903,824	8,996,968
Infrastructure	44,176,161	41,150,979	65,122,032	63,233,388	109,298,193	104,384,367
Construction in Progress	6,415,459	3,585,562	354,817	588,734	6,770,276	4,174,296
Accumulated Depreciation	(36,994,514)	(34,182,146)	(23,509,901)	(23,027,087)	(60,504,415)	(57,209,233)
Totals	\$101,019,064	\$96,594,682	\$44,547,564	\$44,586,466	\$145,566,628	\$141,181,148

Additional information about the City's capital assets is presented in Note 5 in the *notes to the financial statements*.

LONG-TERM DEBT

At the end of the 2017 the City's total long-term debt decreased by \$3,274,197, or 13%, as compared to 2016. Governmental activities long-term debt decreased \$2,091,028, or 19%, due to normal debt retirements. Business-type activities long-term debt decreased \$1,183,168, or 8%, also due to normal debt retirements. Of the debt outstanding at the end of 2017, 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.

LONG-TERM DEBT

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$ 8,265,000	\$10,295,000	\$ 3,635,000	\$ 3,845,000	\$11,900,000	\$14,140,000
LID Bonds	224,182	261,545	-	-	224,182	261,545
Intergovernmental Loans	260,314	283,978	9,119,007	10,092,175	9,379,321	10,376,154
Totals	\$ 8,749,496	\$10,840,524	\$ 12,754,007	\$13,937,175	\$21,503,502	\$24,777,699

Additional information about the City's long-term obligations is presented in Note 8 in the *notes to the financial statements*.

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. Approved staffing levels in 2017 were 118.4 full-time equivalent (FTE) positions, still significantly lower than the City's high point of 152 FTE in 2008 but representing an increase of 7.75 FTE over the approved levels for 2016. Changes to the operating budgets from 2012 through 2017 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 2017 programmatic activities included response to the heightened development activity on the Island with new positions in Planning and Community Development and Public Works, along with increased staffing in the Public Safety Department.

During the recession, the City's Capital Improvement Plan was curtailed as revenues decreased. However, starting in 2011 and continuing through the current year, 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 2017, the City completed a separated trail between two arterials, creating safe non-motorized travel along a state highway.

The local economy began to stabilize in 2011 and has grown through 2017. However, the City does not expect to achieve pre-recession levels of revenue growth in the near future. The City made difficult choices which brought recurring expenses to levels below recurring revenues and established 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 \$4,400,000 in the coming years.

CITY OF BAINBRIDGE ISLAND, WASHINGTON
Statement of Net Position
As of December 31, 2017

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 24,214,129	\$ 14,325,951	\$ 38,540,080
Receivables - Net	2,034,949	284,323	2,319,272
Due from Other Governments	1,750,504	-	1,750,504
Inventories	126,445	39,728	166,173
Restricted Cash for Debt Service	-	1,696,042	1,696,042
Prepays	168,446	-	168,446
Unamortized Bond Insurance Costs	15,576	-	15,576
Special Assessments Receivable	79,265	1,212,616	1,291,880
Net Pension Asset	977,838	-	977,838
Depreciable Capital Assets (Net)	31,789,643	42,395,882	74,185,525
Land	61,933,961	1,796,865	63,730,826
Construction in Progress	6,415,459	354,817	6,770,276
Other Capital Assets	880,001	-	880,001
Total Assets	130,386,216	62,106,224	192,492,440
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Debt Refunding	170,116	-	170,116
Deferred Charge on Pensions	580,468	345,673	926,141
Total Deferred Outflows of Resources	750,584	345,673	1,096,257
Total Assets and Deferred Outflows of Resources	\$ 131,136,801	\$ 62,451,897	\$ 193,588,697
LIABILITIES			
Accounts Payable	\$ 1,956,829	\$ 255,551	\$ 2,212,380
Accrued Expenses	514,002	404,694	918,696
Unearned Revenue	-	244,471	244,471
Special Assessment Debt with Governmental Commitment	224,182	-	224,182
Non-Current Liabilities Due Within One Year	2,218,214	1,500,223	3,718,437
Non-Current Liabilities Due in More Than One Year	7,363,592	12,047,325	19,410,917
Compensated Absences Due in More Than One Year	220,527	153,294	373,820
Net Pension Liability Due in More Than One Year	3,139,967	2,272,744	5,412,711
Total Liabilities	15,637,312	16,878,302	32,515,614
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows on Pensions	786,069	386,190	1,172,259
NET POSITION			
Net Investment in Capital Assets	95,883,667	31,666,254	127,549,921
Restricted for:			
Debt Service	169,242	1,696,042	1,865,284
Public Safety	68,657	-	68,657
PEG Capital	153,025	-	153,025
Energy Efficiency Upgrades	51,377	-	51,377
Economic Development	296,032	-	296,032
Transportation	1,576,343	-	1,576,343
Other Purposes	56,801	-	56,801
Unrestricted	16,458,275	11,825,108	28,283,383
Total Net Position	\$ 114,713,420	\$ 45,187,405	\$ 159,900,824

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, 2017

	Program Revenues					Net Expense/Revenue and Changes in Net Position	
	Expenses	Charges for Services		Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
		Services	Contributions			Governmental Activities	Business-Type Activities
Primary Government:							
Governmental Activities:							
General Government	\$ 4,806,460	\$ 939,575	\$ -	\$ -	\$ -	\$ (3,866,885)	\$ -
Judicial	646,428	97,306	-	-	-	(549,122)	-
Public Safety	5,395,035	78,737	232,364	-	-	(5,083,934)	-
Physical Environment	1,138,957	36,809	18,137	39,632	-	(1,044,379)	-
Transportation	3,208,249	59,554	539,553	2,521,312	-	(87,830)	-
Health and Human Services	254,445	-	-	-	-	(254,445)	-
Economic Environment	1,478,787	188,445	-	-	-	(1,290,343)	-
Culture and Recreation	853,345	-	3,611	1,152,748	-	303,015	-
Interest on Long Term Debt	447,437	-	-	-	-	(447,437)	-
Total Government Activities	18,229,142	1,400,424	793,665	3,713,693	-	(12,321,360)	-
Business-Type Activities:							
Water	1,289,641	1,231,536	-	529,041	-	-	470,935
Sewer	3,176,310	3,678,601	-	793,930	-	-	1,296,221
Storm and Surface Water Management	1,778,090	2,292,346	-	435,642	-	-	949,898
Building and Development Services	2,418,715	1,785,030	-	-	-	-	(633,685)
Total Business-Type Activities	8,662,756	8,987,512	-	1,758,613	-	-	2,083,369
Total Primary Government	\$ 26,891,898	\$ 10,387,936	\$ 793,665	\$ 5,472,306	-	\$ (12,321,360)	\$ 2,083,369
							\$ (10,237,991)
General Revenues:							
Property Taxes Levied for General Purposes						\$ 7,290,799	\$ -
Property Taxes Levied for Other Purposes						603,803	-
Sales and Use Taxes						4,779,135	-
Business and Occupation Taxes						4,875,573	-
Excise Taxes						3,797,243	-
Unrestricted Investment Earnings						234,400	143,250
Grants and Contributions not Restricted to Specific Programs						332,223	-
Gain(Loss) on Disposal of Capital Assets						72,227	-
Miscellaneous						688,659	24,123
Transfers						(409,138)	409,138
Total General Revenues and Transfers						22,264,924	576,512
Change in Net Position						9,943,564	2,659,881
Prior Period Adjustments						(226,828)	-
Net Position - Beginning						104,996,684	42,527,524
Net Position - Ending						\$ 114,713,420	\$ 45,187,405
							\$ 159,900,824

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, 2017

	General	Real Estate Excise Tax	General Obligation Bonds	Capital Construction	Non-Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 16,071,889	\$ 56,801	\$ 1,503	\$ 4,988,138	\$ 2,570,876	\$ 23,689,206
Receivables - Net	154,749	-	5,897	-	47,240	207,886
Inventories	10,116	-	-	-	116,329	126,445
Due From Other Governments	59,171	-	-	1,691,333	-	1,750,504
Unmatured Assessments	-	-	-	-	79,265	79,265
Total Assets	\$ 16,295,924	\$ 56,801	\$ 7,400	\$ 6,679,470	\$ 2,813,710	\$ 25,853,306
LIABILITIES						
Accounts Payable	\$ 391,087	\$ -	\$ -	\$ 1,493,446	\$ 62,275	\$ 1,946,808
Accrued Expenditures	402,179	-	-	-	67,094	469,273
Total Liabilities	793,267	-	-	1,493,446	129,369	2,416,081
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenues - Grants	-	-	-	824,895	-	824,895
Unavailable Revenues - Property Taxes	127,828	-	3,779	-	-	131,607
Unavailable Revenues - Special Assessments	-	-	-	-	125,805	125,805
Total Deferred Inflows of Resources	127,828	-	3,779	824,895	125,805	1,082,307
FUND BALANCES						
Nonspendable	69,287	-	-	-	116,329	185,616
Restricted	273,059	56,801	-	-	2,041,617	2,371,477
Committed	81,835	-	-	-	96,171	178,006
Assigned	127,609	-	3,621	4,361,129	304,418	4,796,777
Unassigned	14,823,040	-	-	-	-	14,823,040
Total Fund Balances	15,374,830	56,801	3,621	4,361,129	2,558,536	22,354,917
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 16,295,924	\$ 56,801	\$ 7,400	\$ 6,679,470	\$ 2,813,710	\$ 25,853,306

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, 2017

Ending fund balance - governmental funds	\$ 22,354,917
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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.	99,600,967
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Other Assets are not available to pay current-period expenditures and, therefore, are deferred in the governmental funds.	168,446
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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.	977,838
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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	170,116
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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	15,576
Accounts Receivable - Earned but Unavailable	1,827,063

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	824,895
Deferred Inflows of Resources - Special Assessments	125,805
Deferred Inflows of Resources - Property Taxes	131,607

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

Accrued expenses	(464,298)
Compensated absences	(220,527)
Long-term liabilities	(9,396,439)
Net Pension Liability	(3,139,967)

Internal service funds are used by management to charge the costs of equipment rental and replacement activities to individual funds. The net position of internal service funds is included in governmental activities in the statement of net position.

Net position	1,943,020
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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	580,468
Deferred inflow of resources related to pensions	(786,069)

Net Position of Major Governmental Activities	\$ 114,713,420
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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, 2017

	General	Real Estate Excise Tax	General Obligation Bond	Capital Construction	Non-Major Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes	\$ 7,305,973	\$ -	\$ 603,803	\$ -	\$ -	\$ 7,909,775
Other Taxes	8,414,654	3,356,147	-	-	1,580,910	13,351,710
Fees and Fines	95,260	-	-	-	-	95,260
Licenses and Permits	618,713	-	-	-	39,150	657,863
Intergovernmental	463,432	-	-	2,836,484	539,553	3,839,470
Charges for Services	454,448	-	-	620	190,163	645,231
Interest and Investment Revenue	214,564	522	-	-	14,488	229,574
Other Revenues	173,530	-	-	-	52,058	225,587
Total Revenues	17,740,574	3,356,669	603,803	2,837,104	2,416,321	26,954,470
EXPENDITURES						
Current						
General Government	4,026,952	-	-	-	385,257	4,412,209
Judicial	643,074	-	-	-	-	643,074
Public Safety	5,079,219	-	-	-	61,941	5,141,159
Physical Environment	1,049,737	-	-	-	49,133	1,098,870
Transportation	5,842	-	-	-	1,608,439	1,614,281
Health and Human Services	253,274	-	-	-	-	253,274
Economic Environment	1,275,970	-	-	-	199,978	1,475,947
Culture and Recreation	446,547	-	-	-	490	447,037
Debt Service - Principal	-	-	2,053,665	-	37,364	2,091,029
Debt Service - Interest	2,283	-	430,569	-	11,950	444,803
Capital Outlay	679,606	-	-	5,529,798	45,892	6,255,296
Total Expenditures	13,462,502	-	2,484,234	5,529,798	2,400,442	23,876,977
Excess/(deficiency) of Revenue over Expenditures	4,278,072	3,356,669	(1,880,432)	(2,692,694)	15,878	3,077,493
OTHER FINANCING SOURCES/(USES)						
Disposition of Capital Assets	18,618	-	-	-	26,347	44,966
Transfers In	877,836	-	1,882,005	4,779,047	1,241,623	8,780,511
Transfers Out	(4,963,570)	(3,325,005)	-	(877,836)	(400,000)	(9,566,411)
Total Other Financing Sources/Uses	(4,067,116)	(3,325,005)	1,882,005	3,901,211	867,971	(740,934)
Net Change in Fund Balance	210,956	31,664	1,573	1,208,516	883,849	2,336,559
Fund Balances - Beginning	15,390,702	25,137	2,048	2,925,785	1,674,687	20,018,358
Prior Period Adjustments	(226,828)	-	-	226,828	-	-
Fund Balances - Ending	\$ 15,374,830	\$ 56,801	\$ 3,621	\$ 4,361,129	\$ 2,558,536	\$ 22,354,917

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, 2017

Net change in fund balances - Total governmental funds \$ 2,336,559

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	\$ 6,255,296	
Less current year depreciation	(2,244,658)	
		4,010,638

Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenues in the funds.	1,030,225
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Internal service funds are used by management to charge the costs of equipment rental and replacement activities to individual funds. The net position of internal service funds is included in governmental activities in the Statement of Net Position.	1,943,020
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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.	2,091,029
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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.	(380,436)
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Governmental capital assets transferred into the internal service fund do not create a transfer out.	(1,281,822)
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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.	194,352
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Change in Net Position of Governmental Activities	\$ 9,943,564
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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, 2017

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Water	Sewer	Storm and Surface Water Management	Building and Development Services	Total	Internal Service Fund
ASSETS						
Current Assets						
Cash and Cash Equivalents	\$ 7,336,961	\$ 5,144,566	\$ 1,394,443	\$ 449,981	\$ 14,325,951	\$ 524,923
Receivables - Net	14,694	215,985	53,644	-	284,323	-
Inventories	28,235	1,695	9,798	-	39,728	-
Subtotal - Current Assets	7,379,891	5,362,246	1,457,884	449,981	14,650,002	524,923
Long-Term Assets						
Restricted Cash for Debt Service	-	1,696,042	-	-	1,696,042	-
Special Assessments Receivable	-	1,212,616	-	-	1,212,616	-
Depreciable Capital Assets (Net)	11,618,362	20,340,192	10,437,328	-	42,395,882	1,418,097
Land	637,436	834,874	324,555	-	1,796,865	-
Construction in Progress	51,377	225,121	78,320	-	354,817	-
Subtotal - Long-Term Assets	12,307,176	24,308,844	10,840,202	-	47,456,222	1,418,097
Total Assets	19,687,066	29,671,090	12,298,087	449,981	64,049,244	1,943,020
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Charge on Pensions	38,660	83,713	78,692	144,608	345,673	-
LIABILITIES						
Current Liabilities						
Accounts Payable	30,200	47,598	147,794	29,959	255,551	-
Accrued Expenses	25,191	243,068	41,137	95,299	404,694	-
Unearned Revenue	-	-	-	244,471	244,471	-
Current Portion of Compensated Absences	105,395	62,229	42,492	74,573	284,688	-
Current Portion of Long-Term Debt	-	1,164,832	50,703	-	1,215,535	-
Subtotal - Current Liabilities	160,786	1,517,727	282,125	444,301	2,404,939	-
Long-Term Liabilities						
Compensated Absences	56,751	33,508	22,880	40,155	153,294	-
Net Pension Liability	253,852	546,719	514,591	957,582	2,272,744	-
Bonds, Loans, and Other Debt	-	11,320,400	726,926	-	12,047,325	-
Subtotal - Long-Term Liabilities	310,603	11,900,626	1,264,397	997,737	14,473,363	-
Total Liabilities	471,389	13,418,353	1,546,522	1,442,038	16,878,302	-
DEFERRED INFLOWS OF RESOURCES						
Deferred inflow on Pensions	43,270	93,084	87,383	162,453	386,190	-
NET POSITION						
Net investment in Capital Assets	12,307,176	8,914,955	10,444,124	-	31,666,254	1,418,097
Restricted for:						
Debt Service	-	1,696,042	-	-	1,696,042	-
Unrestricted	6,903,892	5,632,369	298,750	(1,009,902)	11,825,108	524,923
Total Net Position	\$ 19,211,068	\$ 16,243,366	\$ 10,742,873	\$ (1,009,902)	\$ 45,187,405	\$ 1,943,020

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, 2017

	Water	Sewer	Storm and Surface Water Management	Building and Development Services	Totals	Internal Services Fund
OPERATING REVENUES						
Charges for Services	\$ 1,231,536	\$ 3,678,601	\$ 2,292,346	\$ 1,785,030	\$ 8,987,512	\$ 520,097
Total Operating Revenues	1,231,536	3,678,601	2,292,346	1,785,030	8,987,512	520,097
OPERATING EXPENSES						
Personal Services	508,455	973,508	1,020,246	1,933,193	4,435,402	-
Contractual Services	99,491	96,581	182,154	356,868	735,094	-
Utilities	120,890	274,079	33,685	1,620	430,275	-
Repairs and Maintenance	76,601	35,701	16,692	7,145	136,139	-
Miscellaneous Expense	7,474	9,041	34,332	5,172	56,019	-
Other Supplies and Expenses	184,639	631,746	260,175	38,153	1,114,712	-
Insurance Claims and Expenses	17,347	44,181	30,359	76,564	168,451	-
Depreciation	274,744	924,141	198,482	-	1,397,367	267,748
Total Operating Expenses	1,289,641	2,988,977	1,776,124	2,418,715	8,473,458	267,748
Operating Income (Loss)	(58,106)	689,623	516,221	(633,685)	514,054	252,349
NON-OPERATING REVENUES (EXPENSES)						
Interest & Investment Revenue	67,488	108,802	13,041	-	189,332	4,826
Miscellaneous Revenue	10,125	683	-	2,591	13,398	27,261
Miscellaneous Expense	(25,840)	(556)	(8,961)	-	(35,357)	-
Interest Expense	-	(187,332)	(1,966)	-	(189,298)	-
Total Non-Operating Revenues (Expenses)	51,774	(78,403)	2,114	2,591	(21,925)	32,088
Net income (loss) before contributions and transfers	(6,332)	611,221	518,335	(631,095)	492,129	284,437
Capital Contributions	529,041	793,930	435,642	-	1,758,613	-
Transfers In	-	-	-	785,900	785,900	1,658,584
Transfers Out	(26,833)	(26,833)	(323,095)	-	(376,762)	-
Change in Net Position	495,876	1,378,317	630,883	154,805	2,659,881	1,943,020
Net Position - Beginning	18,715,192	14,865,049	10,111,991	(1,164,708)	42,527,524	-
Total Net Position - Ending	\$ 19,211,068	\$ 16,243,366	\$ 10,742,873	\$ (1,009,902)	\$ 45,187,405	\$ 1,943,020

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, 2017

Page 1 of 2

	Water	Sewer	Storm and Surface Water Management	Building and Development Services	Total	Internal Service Fund
Cash Flows from Operating Activities						
Receipts from Customers	\$ 1,241,223	\$ 3,720,151	\$ 2,290,389	\$ 1,742,654	\$ 8,994,417	\$ 520,097
Payments to Suppliers	(529,955)	(865,641)	(880,587)	(471,413)	(2,747,596)	-
Payments to Employees	(570,512)	(1,142,692)	(1,081,480)	(1,953,879)	(4,748,563)	-
Net Cash Provided (Used) by Operating Activities	140,756	1,711,818	328,372	(682,638)	1,498,258	520,097
Cash Flows from Non-Capital Financing Activities						
Transfers from Other Funds	-	-	-	785,900	785,900	-
Net Cash Provided (Used) by Non-Capital Financing Activities	-	-	-	785,900	785,900	-
Cash Flows from Capital and Related Financing Activities						
Capital Contributions	343,870	637,266	-	-	981,136	-
Capital Grants	-	-	-	-	-	-
Special Assessment Receipts	-	178,668	-	-	178,668	-
Purchase/Acquisition of Capital Assets	(90,401)	(596,394)	(451,393)	-	(1,138,188)	-
Proceeds from Long-Term Debt	-	156,630	-	-	156,630	-
Principal Paid on Capital Debt	-	(1,144,390)	(50,703)	-	(1,195,093)	-
Interest Paid on Capital Debt	-	(199,927)	(2,234)	-	(202,161)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	253,469	(968,147)	(504,330)	-	(1,219,008)	-
Cash Flows from Investing Activities						
Interest, Dividends and Rents	67,488	62,934	13,041	2,592	146,055	4,826
Net Cash Provided (Used) by Investing Activities	67,488	62,934	13,041	2,592	146,055	4,826
Net Increase (Decrease) in Cash and Cash Equivalents	461,713	806,605	(162,967)	105,854	1,211,205	524,923
Cash and Cash Equivalents, January 1	6,875,248	6,034,003	1,557,410	344,127	14,810,788	-
Cash and Cash Equivalents, December 31	\$ 7,336,961	\$ 6,840,608	\$ 1,394,443	\$ 449,981	\$ 16,021,993	\$ 524,923

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, 2017

Page 2 of 2

	Water	Sewer	Storm and Surface Water Management	Building and Development Services	Total	Internal Service Fund
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities						
Operating Income (Loss)	\$ (58,106)	\$ 689,623	\$ 516,221	\$ (633,685)	\$ 514,053	\$ 252,349
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities						
Depreciation	274,744	924,141	198,482	-	1,397,367	267,748
(Increase) Decrease in Accounts Receivable	(438)	42,366	(4,661)	-	37,267	-
(Increase) Decrease in Inventory	15,640	556	4,404	-	20,600	-
(Increase) Decrease in Deferred Charge on Pensions	30,204	60,097	45,573	77,588	213,462	-
Increase (Decrease) in Accounts Payable	(38,773)	(6,502)	(330,942)	2,133	(374,084)	-
Increase (Decrease) in Compensated Absences	(94,693)	(40,968)	(22,217)	(37,891)	(195,769)	-
Increase (Decrease) in Other Current Payables	105,994	214,649	29,691	88,619	438,953	-
Increase (Decrease) in Unearned Revenue	-	-	-	(44,966)	(44,966)	-
Increase (Decrease) in Net Pension Liability	(128,930)	(248,289)	(168,484)	(270,717)	(816,420)	-
Increase (Decrease) in Deferred Inflow on Pensions	35,114	76,145	72,828	136,281	320,368	-
Increase (Decrease) in Post-Closure Landfill Liability	-	-	(12,573)	-	(12,573)	-
Net Cash Provided (Used) by Operating Activities	\$ 140,756	\$ 1,711,818	\$ 328,322	\$ (682,638)	\$ 1,498,258	\$ 520,097
Noncash Investing, Capital, and Financing Activities						
Developer Infrastructure Contributions	\$ 181,172	\$ 156,664	\$ 435,642	\$ -	\$ 773,477	\$ -
Capital Asset Transfers and Acquisitions from Other Funds	(23,833)	(26,833)	(323,095)	-	(373,762)	1,658,584
	\$ 157,338	\$ 129,830	\$ 112,548	\$ -	\$ 399,716	\$ 1,658,584

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, 2017

ASSETS	Agency Funds
Cash and Cash Equivalents	\$ 513,825
Total Assets	<u>\$ 513,825</u>
LIABILITIES	
Custodial Accounts Payable	\$ 513,825
Total Liabilities	<u>\$ 513,825</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, 2017

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.

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 **Internal Service Fund**:

The internal service fund accounts for equipment replacement and rental to other departments and funds of the city, and to other governments, on a cost-reimbursement basis. This proprietary fund type is reported with governmental activities in the government-wide financial statements.

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 the Revised Code of Washington (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, or (b) increase any fund's total expenditures 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, 2017, the City was holding \$40,749,946 in cash and cash equivalents which included \$24,214,129 in the governmental funds, \$16,021,993 in the proprietary funds, and \$513,824 in the fiduciary funds.

It is the City's policy to invest temporary cash surpluses. At December 31, 2017, the City was holding \$39,633,541 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 2017, the City's levy for general governmental services was \$1.06 per \$1,000 on assessed valuation of \$6,898,602,303 for a total of \$7,312,117. 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, 2017 and 2016, the City had total taxes receivable of \$1,771,566 and \$1,679,301, 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, 2017 and 2016, the City had \$4,789 and \$7,380, 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 2017 is \$591,591 (\$499,953 considered uncollectible) compared to \$685,996 (\$596,405 considered uncollectible) for 2016. This decrease in Municipal Court receivables reflects the Court's recent adoption of the State of Washington's best practices, including 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 \$1,750,504 and \$771,227 for fiscal years 2017 and 2016, 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 \$50,000 for land, buildings, infrastructure, or intangible assets and more than \$20,000 for machinery, software, or artwork, and an estimated useful life in excess of one year. These assets are recorded at historical cost or estimated historical cost. Donated capital assets and related items are recorded at acquisition 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 2017, no interest was capitalized. Total interest incurred and expensed in 2017 was \$636,735.

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 15
Light and Heavy Vehicles, Equipment	2 to 20
Police Vehicles	9
Buildings & Improvements	20 to 50
Roads – Unpaved and Paved	2 and 25
Sewage Treatment Plant	20
Water & Sewer Mains	66
Other Utility Infrastructure	20 to 75

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 that 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 time away from work for which employees will be paid. They consist of vacation, accrued compensating time off for overtime hours worked, floating holidays, and time spent on standby. Only compensated absences, and the value of the related employee benefits, 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, 2017 and 2016, is as follows:

	2017	2016
Vacation	\$ 800,540	\$ 586,589
Compensating Time	131,638	100,671
Standby Time	45,988	36,676
Floating Holidays	89,892	71,501
Total	\$ 1,068,058	\$ 795,437

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 (i.e., 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, 2017, were as follows:

	General Fund	Real Estate Excise Tax Fund	GO Bond Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:						
Inventory	\$ 10,116	\$ -	\$ -	\$ -	\$ 116,329	\$ 126,445
Long-term Receivables	59,171	-	-	-	-	59,171
Total Nonspendable	\$ 69,287	\$ -	\$ -	\$ -	\$ 116,329	\$ 185,616
Restricted:						
Police Investigations	\$ 36,157	\$ -	\$ -	\$ -	\$ -	\$ 36,157
Police Marine	32,500	-	-	-	-	32,500
EECBG Federal Grant	51,377	-	-	-	-	51,377
PEG Capital	153,025	-	-	-	-	153,025
Real Estate Excise Tax	-	56,801	-	-	-	56,801
Hotel/Motel Tax	-	-	-	-	296,032	296,032
Transportation Benefit Tax	-	-	-	-	1,208,596	1,208,596
Transportation Impact Fees	-	-	-	-	367,747	367,747
LID Collections	-	-	-	-	169,242	169,242
Total Restricted	\$ 273,059	\$ 56,801	\$ -	\$ -	\$ 2,041,617	\$ 2,371,477
Committed:						
Public Art	\$ 81,835	\$ -	\$ -	\$ -	\$ -	\$ 81,835
Floor Area Ratio - Public Amen.	-	-	-	-	14,545	14,545
Floor Area Ratio - Agriculture	-	-	-	-	81,626	81,626
Total Committed	\$ 81,835	\$ -	\$ -	\$ -	\$ 96,171	\$ 178,006
Assigned:						
General Fund	\$ 27,604	\$ -	\$ -	\$ -	\$ -	\$ 27,604
Affordable Housing	100,005	-	-	-	-	100,005
Street Fund	-	-	-	-	304,418	304,418
GO Bond Fund	-	-	3,621	-	-	3,621
Construction Fund	-	-	-	4,361,129	-	4,361,129
Total Assigned	\$ 127,609	\$ -	\$ 3,621	\$ 4,361,129	\$ 304,418	\$ 4,796,777
Unassigned:						
General Fund	\$ 14,823,040	\$ -	\$ -	\$ -	\$ -	\$ 14,823,040
Total Unassigned	\$ 14,823,040	\$ -	\$ -	\$ -	\$ -	\$ 14,823,040
Total Fund Balance	\$ 15,374,830	\$ 56,801	\$ 3,621	\$ 4,361,129	\$ 2,558,536	\$ 22,354,917

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, 2017. 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 is 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, 2017 and 2016, the City-Council-specified goal was \$4,435,143 and \$4,114,130, respectively. Unassigned general fund balance at December 31, 2017 and 2016, was \$14,773,170 and \$15,032,979, or \$13,752,659 and \$14,012,533 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 \$(1,009,902) at December 31, 2017. 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 2017, all city funds were invested in short-term cash equivalent investments in the Washington State Treasurer's Local Government Investment Pool (LGIP) or the Kitsap County Treasurer's Investment Pool (KCTIP). 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.

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, 2017, the City held the following investments (at amortized cost) and cash deposits:

Short-Term Investment held in the Washington State Treasurer's Investment Pool	\$ 13,264,903
Short-Term Investment held in the Kitsap County Treasurer's Investment Pool	26,368,638
Total Investments	\$39,633,541
Cash deposits held by the Kitsap County Treasurer	18,641
Cash deposits at Umpqua Bank	1,097,764
Total cash and cash equivalents as reported on the financial statements	\$40,749,946

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 2017 levy rates were \$.35 and \$.89, 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, 2017, was as follows:

Governmental Activities	Beginning Balance 01/01/2017	Increases	Decreases	Ending Balance 12/31/2017
Capital Assets not depreciated:				
Land	\$ 61,669,961	\$ 264,000	\$ -	\$ 61,933,961
Construction In Progress	3,585,562	6,255,296	(3,425,399)	6,415,459
Development Rights (Intangible)	880,000	-	-	880,000
Total Capital Assets not depreciated	\$ 66,135,523	\$ 6,519,296	\$ (3,425,399)	\$ 69,229,420
Capital Assets, Depreciable:				
Buildings	\$ 16,400,829	\$ -	\$ -	\$ 16,400,829
Machinery and Equipment	7,089,497	1,735,778	(618,107)	8,207,168
Infrastructure	41,150,979	3,252,011	(226,828)	44,176,161
Total Capital Assets, depreciable	\$ 64,641,305	\$ 4,987,789	\$ (844,936)	\$ 68,784,158
Less Accumulated Depreciation for:				
Buildings	\$ (7,134,910)	\$ (433,012)	\$ -	\$ (7,567,922)
Machinery and Equipment	(5,730,061)	(1,299,515)	618,107	(6,411,469)
Infrastructure	(21,317,177)	(1,697,948)	-	(23,015,125)
Total Accumulated Depreciation	\$ (34,182,148)	\$ (3,430,475)	\$ 618,107	\$ (36,994,516)
Total Capital Assets, depreciable, net	\$ 30,459,157	\$ 1,557,314	\$ (226,828)	\$ 31,789,642
Total Governmental Activities Capital Assets, net	\$ 96,594,680	\$ 8,076,609	\$ (3,652,227)	\$ 101,019,062

Business-Type Activities	Beginning Balance 01/01/2017	Increases	Decreases	Ending Balance 12/31/2017
Capital Assets not depreciated:				
Land	\$ 1,796,865	\$ -	\$ -	\$ 1,796,865
Construction In Progress	588,735	42,892	(276,809)	354,818
Total Capital Assets not depreciated	\$ 2,385,600	\$ 42,892	\$ (276,809)	\$ 2,151,683
Capital Assets, depreciable:				
Buildings	\$ 54,728	\$ -	\$ -	\$ 54,728
Computer Software	32,365	-	-	32,365
Machinery and Equipment	1,907,471	-	(1,210,815)	696,656
Infrastructure	63,233,388	1,888,644	-	65,122,032
Total Capital Assets, depreciable	\$ 65,227,952	\$ 1,888,644	\$ (1,210,815)	\$ 65,905,782
Less accumulated depreciation for:				
Buildings	\$ (12,979)	\$ (1,150)	\$ -	\$ (14,128)
Computer Software	(32,365)	-	-	(32,365)
Machinery and Equipment	(1,726,411)	(6,898)	914,553	(818,757)
Infrastructure	(21,255,331)	(1,389,319)	-	(22,644,650)
Total Accumulated Depreciation	\$ (23,027,086)	\$ (1,397,367)	\$ 914,553	\$ (23,509,900)
Total Capital Assets, depreciable, net	\$ 42,200,866	\$ 491,277	\$ (296,261)	\$ 42,395,882

Total Business-Type Activities Capital Assets, net	\$ 44,586,466	\$ 534,169	\$ (573,070)	\$ 44,547,565
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The change in accumulated depreciation for governmental activities includes both regular depreciation and accumulated depreciation on assets transferred from business-type activities.

2017 depreciation expense was charged to the functions of the city as follows:

Governmental Activities	2017	2016
General Government	\$ 383,079	\$ 371,781
Judicial	2,218	2,218
Public Safety	191,351	173,684
Physical Environment	37,209	4,324
Transportation	1,513,483	1,551,194
Economic Environment	-	-
Culture and Recreation	385,066	273,814
Total Depreciation - Governmental Activities	\$ 2,512,406	\$ 2,377,015

Business-Type Activities	2017	2016
Water Utility	\$ 274,744	\$ 291,517
Sewer Utility	924,141	930,280
Storm and Surface Water Management Utility	198,482	217,107
Building and Development Services	-	-
Total Depreciation - Business-Type Activities	\$ 1,397,367	\$ 1,438,903

B. Construction Commitments

At December 31, 2017, the City had contractual commitments of \$449,442 for City dock improvements, \$311,112 for the Sound to Olympics Trail construction, and \$145,311 for the New Brooklyn gravity sewer main improvement.

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 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (5,412,706)
Pension assets	\$ 977,838
Deferred outflows of resources	\$ 926,142
Deferred inflows of resources	\$ (1,172,260)
Pension expense/expenditures	\$ 546,958

State Sponsored Pension Plans

Substantially all City 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.

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 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 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January – June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	0.00%
Administrative Fee	0.18%	0.00%
Total	11.18%	6.00%
July – December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	0.00%
Administrative Fee	0.18%	0.00%
Total	12.70%	6.00%

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

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 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January – June 2017:		
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		varies
Total	11.18%	6.12%
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	0.00%
Administrative Fee	0.18%	0.00%
Employee PERS Plan 3		
Total	12.70%	7.38%

* For employees participating in JBM, the contribution rate was 15.30% for January to June 2017 and 18.45% for July to December 2017.

The City's actual PERS plan contributions were \$381,731 to PERS Plan 1 and \$525,708 to PERS Plan 2/3 for the year ended December 31, 2017.

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 2017. 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 2017 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
January – June 2017:		
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	0.00%
Total	5.23%	8.41%
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	0.00%
Total	8.59%	8.41%
July – December 2017:		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	0.00%
Total	5.43%	8.75%
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	0.00%

Total	8.93%	8.75%
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The City's actual contributions to the plan were \$116,464 for the year ended December 31, 2017.

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, 2017, the State contributed \$62,155,262 to LEOFF Plan 2. For 2017, the amount recognized by the City as its proportionate share of this amount was \$66,341.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. 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 and the 2015 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, 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 changes in methods and assumptions since the last valuation:

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent 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 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent 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 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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, 2017, 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%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of Net Pension Liability/(Asset)

The table below presents the City's proportionate share* of the net pension liability (NPL) calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the NPL would be if it were calculated using a discount rate that is one percentage point lower (6.5%), or one percentage point higher (8.5%), then the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS I	\$ 3,455,299	\$ 2,836,418	\$ 2,300,334
PERS 2/3	\$ 6,940,791	\$ 2,576,289	\$ (999,774)
LEOFF I	\$ (58,538)	\$ (79,457)	\$ (97,078)
LEOFF 2	\$ 194,408	\$ (898,381)	\$ (1,788,741)

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 and/or Inflows of Resources Related to Pensions

At June 30, 2017, the City reported a total pension liability of \$5,412,706 and a total pension asset of \$977,838 for its proportionate share of the net pension liabilities and assets as follows:

	Liability (or Asset)
PERS I	\$ 2,836,418
PERS 2/3	\$ 2,576,289
LEOFF I	\$ (79,457)

LEOFF 2	\$ (898,381)
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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:

	LEOFF 1 Asset	LEOFF 2 Asset	Total
City's proportionate share	\$ (79,457)	\$ (898,381)	\$ (977,838)
State's proportionate share of the net pension asset associated with the City	(537,444)	(582,763)	(1,120,207)
Total	\$ (616,901)	\$ (1,481,145)	\$ (2,098,045)

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.060413%	0.059776%	(1.05%)
PERS 2/3	0.074798%	0.074148%	(0.87%)
LEOFF 1	0.005163%	0.005237%	1.43%
LEOFF 2	0.065121%	0.064740%	(0.59%)

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 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, 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 2017, the state of Washington contributed 39.35% of LEOFF 2 employer contributions pursuant to RCW 41.26.725, and all other employers contributed the remaining 60.65% of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2017. The actuarial valuation date, upon which the total pension liability (asset) is based, was measured as of June 30, 2016, using update procedures to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the City recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 139,273
PERS 2/3	389,465
LEOFF 1	(13,473)
LEOFF 2	31,693
Total	\$ 546,958

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS I	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	-	(105,847)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	198,641	-
Total	\$ 198,641	\$ (105,847)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 261,039	\$ (84,730)
Net difference between projected and actual investment earnings on pension plan investments	-	(686,777)
Changes of assumptions	27,365	-
Changes in proportion and differences between contributions and proportionate share of contributions	52,651	(41,148)
Contributions subsequent to the measurement date	282,331	-
Total	\$ 623,386	\$ (812,654)

LEOFF I	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	-	(7,383)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	-	-
Total	\$ -	\$ (7,383)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 39,486	\$ (34,068)

Net difference between projected and actual investment earnings on pension plan investments	-	(201,693)
Changes of assumptions	1,082	-
Changes in proportion and differences between contributions and proportionate share of contributions	3,011	(10,614)
Contributions subsequent to the measurement date	60,536	-
Total	\$ 104,115	\$ (246,375)

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, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2018	\$ (71,546)
2019	22,588
2020	(5,245)
2021	(51,645)
2022	-
Thereafter	-
Total	\$(105,847)

Year ended December 31:	PERS 2/3
2018	\$ (247,662)
2019	76,503
2020	(65,069)
2021	(280,021)
2022	19,413
Thereafter	25,237
Total	\$ (471,599)

Year ended December 31:	LEOFF 1
2018	\$ (4,634)
2019	1,250
2020	(499)
2021	(3,500)
2022	-
Thereafter	-
Total	\$ (7,383)

Year ended December 31:	LEOFF 2
2018	\$ (95,737)
2019	17,905
2020	(16,923)

2021	(89,923)
2022	(3,235)
Thereafter	(14,883)
Total	\$(202,797)

NOTE 7 – RISK MANAGEMENT

The City is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (Self-Insurance Regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created 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 161 members.

New WCIA members initially contract for a three-year term, and thereafter automatically renew annually. Membership termination requires 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 \$21 million above the self-insured layer through reinsurance. Total limits are \$25 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 that 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 that 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, reinsurance, and administrative expenses. As outlined in the interlocal agreement, WCIA retains the right to additionally assess the membership for any funding shortfall.

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

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, 2017, there were no material settlements not fully covered by insurance.

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 has entered into bonded indebtedness to advance refund certain 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 and 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 I.F.2 for information on delinquent LID special assessment receivables.

Long-Term debt reported on the statements of net position at December 31, 2017, is comprised of the following:

Type of Debt or Long-Term Liability	Governmental Activities	Business-Type Activities
Unlimited Tax General Obligation Bonds	\$ 3,250,000	\$ -
Limited Tax General Obligation Bonds	5,015,000	3,635,000
Limited Tax General Obligation Long-Term Debt	260,313	5,236,435
Revenue Obligation Long-Term Debt	-	1,800,073
Local Improvement District Obligation Long-Term Debt	224,181	2,082,500
Long-Term Debt analyzed in this Note below	8,749,494	12,754,008
Other Components of Long-Term Liabilities:		
Other Post-Employment Benefits - See Note No. 14	344,803	-
Net Pension Liability - See Note No. 6	3,139,967	2,272,744
Compensated Absences - See Note No. I.F.9.	630,076	437,982
Landfill Post-Closure Care Costs - See Note No. 9	-	381,550
Unamortized Bond Discounts and Premiums	302,140	127,303
Total Long-Term Liabilities reported on the Statement of Net Position, including the current portion of compensated absences	\$ 13,166,480	\$ 15,973,587

General Obligation Bonds currently outstanding are as follows:

Purpose/Original Issue Amount/Bond	Interest Rates	Governmental Activities	Business-Type Activities
Open Space Acquisitions/\$5,230,000/UTGO 2013	2.00 - 4.00%	\$ 3,250,000	\$ -
Roads, Open Space & Parks/\$5,890,000/LTGO '07 & '08	3.00 - 5.00%	3,620,000	-
Refinance City Hall and Facility Construction Bonds/\$12,630,000/LTGO 2005 & 2009	3.00 - 4.30%	1,395,000	-
Sewer Treatment Plant Bonds/\$5,700,000/LTGO 2011	2.00 - 4.00%	-	3,635,000
Total General Obligation Bonds		\$ 8,265,000	\$ 3,635,000

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

Year Ending	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
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	905,000	146,765	255,000	108,200
2023 - 2027	2,555,000	293,903	1,440,000	379,400
2028 - 2032	130,000	2,925	1,010,000	81,800
Total	\$ 8,265,000	\$ 1,444,983	\$ 3,635,000	\$ 1,096,800

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

Purpose/Original Issue Amount	Interest Rates	Governmental Activities	Business-Type Activities
PWTF Loan for Emergency Street Repairs/\$449,632	3.00%	\$ 260,313	\$ -
PWTF Loan Storm Drain Decant Facility Design/\$179,025	0.50%	-	66,816
PWTF Loan Sewage Treatment Plant Design/\$389,215	0.50%	-	147,611
PWTF Loan Storm Drain Decant Facility Constr./\$782,000	0.50%	-	329,262
PWTF Loan Sewage Treatment Plant Constr. Loan #1/\$3,618,000	0.50%	-	1,684,987
PWTF Loan Eagle Harbor Sewer Beach Mains Design/\$383,542	0.50%	-	224,775
PWTF Loan Eagle Harbor Sewer Beach Mains Constr./\$4,167,089	0.50%	-	2,782,984
Total Other General Obligation Debt		\$ 260,313	\$ 5,236,435

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

Year Ending	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 23,665	\$ 7,809	\$ 488,380	\$ 26,890
2019	23,665	7,099	488,380	24,416
2020	23,665	6,390	488,380	21,925
2021	23,665	5,680	488,380	19,435
2022	23,665	4,970	488,380	16,945
2023 - 2027	118,323	14,199	1,846,440	49,092
2028 - 2032	23,665	710	948,095	14,741
Total	\$ 260,313	\$ 46,856	\$ 5,236,435	\$ 173,445

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

Purpose/Original Issue Amount	Interest Rates	Governmental Activities	Business-Type Activities
PWTF Loan Sewage Treatment Plant Constr. Loan #2/\$3,564,500	0.50%	\$ -	\$ 1,800,073
Total Revenue Obligation Debt		\$ -	\$ 1,800,073

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
2018	\$ -	\$ -	\$ 200,008	\$ 9,000
2019	-	-	200,008	8,000
2020	-	-	200,008	7,000
2021	-	-	200,008	6,000
2022	-	-	200,008	5,000
2023 - 2027	-	-	800,033	10,000
Total	\$ -	\$ -	\$ 1,800,073	\$ 45,000

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

Purpose/Original Issue Amount	Interest Rates	Governmental Activities	Business-Type Activities
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PWTF Loan South Island Sewer Lines Constr./\$5,600,000	0.50%	\$ -	\$ 2,082,500
Local Improvement District No. 22 Bonds Street Constr./\$755,300	4.56%	224,181	-
Total LID Obligation Debt		\$ 224,181	\$ 2,082,500

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
2018	\$ 37,364	\$ 10,223	\$ 297,500	\$ 10,413
2019	37,363	8,519	297,500	8,925
2020	37,364	6,815	297,500	7,438
2021	37,363	5,111	297,500	5,950
2022	37,364	3,408	297,500	4,463
2023 - 2027	37,363	1,704	595,000	4,463
Total	\$ 224,181	\$ 35,779	\$ 2,082,500	\$ 41,650

A. Changes in Long-Term Liabilities

During the year ending December 31, 2017, the following changes occurred in long-term liabilities:

	Beginning Balance Jan. 1, 2017	Additions	Reductions	Ending Balance Dec. 31, 2017	Due Within One Year
Governmental Activities:					
Unlimited Tax General Obligation Bonds	\$ 3,715,000	\$ -	\$ (465,000)	\$ 3,250,000	\$ 490,000
Limited Tax General Obligation Bonds	6,580,000	-	(1,565,000)	5,015,000	1,295,000
Local Improvement District Bonds	261,545	-	(37,364)	224,181	37,364
Total Bonds Payable	10,556,545	-	(2,067,364)	8,489,181	1,822,364
Loans from Other Gov'ts	\$ 283,978	-	(23,665)	260,313	23,665
Compensated Absences	446,376	880,229	(696,529)	630,076	409,549
Net Pension Liability	3,921,322	-	(781,355)	3,139,967	-
OPEB Payable	246,795	136,460	(38,452)	344,803	43,500
Unamortized Bond Discounts & Premiums	375,157	551	(73,568)	302,140	73,017
Total Governmental Activity long-term liabilities	\$ 15,830,173	\$ 1,017,240	\$ (3,680,933)	\$ 13,166,480	\$ 2,372,095
Business-Type Activities:					
Limited Tax General Obligation Bonds	\$ 3,845,000	\$ -	\$ (210,000)	\$ 3,635,000	\$ 220,000
Loans from Other Gov'ts	10,092,175	11,925	(985,093)	9,119,007	995,535
Compensated Absences	349,062	426,077	(337,157)	437,983	284,688
Net Pension Liability	3,089,164	-	(816,420)	2,272,744	-
Landfill Post-Closure Liability	394,123	-	(12,573)	381,550	35,163
Unamortized Bond Discounts & Premiums	137,096	-	(9,793)	127,303	9,793

Total Business-Type Activity long-term liabilities	\$ 17,906,620	\$ 438,002	\$ (2,371,035)	\$ 15,973,587	\$ 1,545,179
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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 has approved the City to use the remaining funds for energy efficiency upgrades to City Hall's HVAC system.

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, 2017.

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, 2017, 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 Washington State Department of Ecology mandated environmental remedial action for the site. The City maintains several monitoring wells on the site and is responsible, under state and federal laws, for future monitoring and maintenance costs through 2031. The City is also responsible for any remedial expenses that might arise should 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 \$381,550 at December 31, 2017, represents the estimated liability for all future post-closure costs as if those costs were performed in 2017. This estimate is subject to change each year 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 2017 were \$13,623. This cost was reduced by \$1,050 due to the annual re-estimation of total post-closure care for the remaining years the City is under obligation to monitor and maintain the closed landfill.

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, 2017, and 2016, the value of total accumulated sick leave was \$1,785,290 and \$1,533,446 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, 2017 and 2016, was \$58,703 and \$60,569, 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 again in 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 2017.

B. Interfund transfers

Interfund transfers for the year ended December 31, 2017, were as follows:

	Transfers to General Fund	Transfers to Street Fund	Transfers to Gen'l Obl. Bond Fund	Transfers to Capital Construction Fund	Transfers to Building & Development Svcs. Fund	Transfers to Equipment Rental Fund	Total
Disbursed From:							
General Fund	\$ -	\$ 217,623	\$ -	\$ 3,960,047	\$ 785,900	\$ -	\$ 4,963,570
Real Estate Excise Tax Fund	-	624,000	1,882,005	819,000	-	-	3,325,005
Transportation Benefit Fund	-	400,000	-	-	-	-	400,000
Capital Construction Fund	877,836	-	-	-	-	-	877,836
Water Fund	-	-	-	-	-	26,833	26,833

Sewer Fund	-	-	-	-	-	26,833	26,833
Storm & Surface Water Management Fund	-	-	-	-	-	323,095	323,095
Governmental Activities	-	-	-	-	-	1,281,822	1,281,822
Total Governmental Activities	\$ 877,836	\$1,241,623	\$1,882,005	\$ 4,779,047	\$ 785,900	\$1,658,584	\$ 11,224,995
Transfer Purpose:	Return of Unused Subsidy	Operating Subsidy	Debt Service Subsidy	Construction Support	Operating Subsidy	Equipment Transfers	

As discussed in Note No. I.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*.

During 2017 the City transferred \$1,281,822 in governmental assets to the internal service fund, as shown in the table above. Because this transfer was at the entity-wide level, and governmental funds have no assets, city-wide transfers in and transfers out will not be equal.

NOTE 12 – RECEIVABLE AND PAYABLE BALANCES

A. Receivables

Receivables (net of amounts determined to be uncollectible) at December 31, 2017, were as follows:

	Accounts	Taxes	Special Assessments	Due from Other Governments or Non-profits	Total
Governmental Activities:					
General Government	\$ 124,505	\$ 1,765,669	\$ -	\$ -	\$ 1,890,174
Public Safety	-	-	-	-	-
Transportation	700	-	125,805	743,179	869,684
Culture & Recreation	-	5,897	-	948,154	954,051
Judicial	91,637	-	-	-	91,637
Phys. Environment	-	-	-	-	-
Economic Environment	-	-	-	-	-
Health and Human Service	-	-	-	59,171	59,171
Total Governmental Activities	\$ 216,842	\$ 1,771,566	\$ 125,805	\$ 1,750,504	\$ 3,864,718
Business-Type Activities:					
Water	\$ 14,694	\$ -	\$ -	\$ -	\$ 14,694
Sewer	98,529	-	1,330,071	-	1,428,600

Storm & Surface Water	53,644	-	-	-	53,644
Bldg. & Dev. Svcs.	-	-	-	-	-
Total Business-Type Activities	\$ 166,867	\$ -	\$ 1,330,071	\$ -	\$ 1,496,938

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, 2017, were as follows:

	Vendors	Salaries and Benefits	Other	Total
Governmental Activities:				
General Government	\$ 358,346	\$ 201,166	\$ -	\$ 559,512
Public Safety	40,680	320,285	-	360,966
Transportation	194,525	169,274	29,968	393,767
Culture and Recreation	1,321,981	13,173	14,760	1,349,915
Judicial	957	42,181	-	43,138
Physical Environment	-	57,944	-	57,944
Economic Environment	39,215	69,623	-	108,838
Health and Human Service	1,125	5,176	-	6,301
Total Governmental Activities	\$ 1,956,829	\$ 878,823	\$ 44,728	\$ 2,880,380
Business-Type Activities:				
Water	\$ 30,200	\$ 130,586	\$ -	\$ 160,786
Sewer	47,598	122,620	182,677	352,895
Storm & Surface Water	147,794	82,474	1,155	231,422
Bldg. & Dev. Svcs.	29,959	169,871	-	199,831
Total Business-Type Activities	\$ 255,551	\$ 505,551	\$ 183,832	\$ 944,934

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 2,600 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 2,100 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, 2017, the City's plan had two covered retirees and 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, 2017.

The following table shows the components of the City's annual OPEB cost for 2017 and the prior two years, the amounts actually contributed to the plan, and changes in the City's net OPEB.

	Fiscal Year Ending	Fiscal Year Ending	Fiscal Year Ending
Determination of Annual Required Contribution:	12/31/2017	12/31/2016	12/31/2015
Normal Cost at Year End	\$ -	\$ -	\$ -
Amortization of UAAL*	148,785	72,054	75,633
Interest for Year	-	-	-
Annual Required Contribution	\$ 148,785	\$ 72,054	\$ 75,633

Determination of Net OPEB Obligation:			
Annual Required Contribution	\$ 148,785	\$ 72,054	\$ 75,633
Interest on Prior Year Net OPEB Obligation	9,872	10,295	9,557

Adjustment to ARC	(22,197)	(21,303)	(19,776)
Annual OPEB Cost	\$ 136,460	\$ 61,046	\$ 65,414

Contributions Made	\$ (38,452)	\$ (43,031)	\$ (49,017)
Increase in Net OPEB Obligation	\$ 98,008	\$ 18,015	\$ 16,397

Net OPEB Obligation-Beginning of Year	\$ 246,795	\$ 228,780	\$ 212,383
Net OPEB Obligation-End of Year	\$ 344,803	\$ 246,795	\$ 228,780

*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 2017 and the eight prior years is as follows:

Fiscal Year Ending	Annual OPEB Cost	Employer Contributions	% of OPEB Cost Contributed	Net OPEB Obligation
12/31/2017	\$ 136,459	\$ 38,452	28%	\$ 344,803
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, 2017, the most recent calculation date, the plan was 0% funded. The accrued liability for benefits was \$1,654,244 and the actuarial value of the assets was \$0, resulting in a UAAL of \$1,654,244. 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. A single retirement age of 55.3 was assumed for all active members for the purpose of determining the actuarial accrued liability (AAL) and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF I rates used in the June 30, 2014, actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF I medical study performed in 2013. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the AAL was the Projected Unit Credit. The AAL and net OPEB obligation are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 15 – PRIOR PERIOD ADJUSTMENT

The City recorded a prior period adjustment during 2017 of \$226,828 for construction in progress written off. During the analysis of a project that was capitalized in 2017 it was found that a sizeable portion of the balance was for a study which GAAP requires to be expensed.

**REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017**

LEOFF I RETIREE MEDICAL BENEFITS - SCHEDULE OF FUNDING PROGRESS

Fiscal Year Ended	Actuarial Value of Assets	Accrued Liability - Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2017	\$ -	\$ 1,654,244	\$ 1,654,244	0%	\$ -	0%
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, 2017
Last 10 Fiscal Years *

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>The City's proportion of the net pension liability (asset)</u>	0.059776%	0.060413%	0.060591%	0.057710%
<u>The City's proportionate share of the net pension liability (asset)</u>	\$ 2,836,418	\$ 3,244,463	\$ 3,169,473	\$ 2,907,168
<u>The City's covered employee payroll in PERS I</u>	\$ 7,378,058	\$ 7,093,980	\$ 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>	38.44%	45.74%	46.52%	46.63%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	61.24%	57.03%	59.10%	61.19%

* This schedule is intended to show information for the last 10 years however only four 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, 2017
Last 10 Fiscal Years *

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>The City's proportion of the net pension liability (asset)</u>	0.074148%	0.074798%	0.075592%	0.071618%
<u>The City's proportionate share of the net pension liability (asset)</u>	\$ 2,576,289	\$ 3,766,020	\$ 2,700,945	\$ 1,447,658
<u>The City's covered employee payroll in PERS 2 and 3</u>	\$ 7,261,956	\$ 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>	35.48%	53.93%	40.27%	23.61%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	90.97%	85.82%	89.20%	93.29%

* This schedule is intended to show information for the last 10 years however only four 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, 2017
Last 10 Fiscal Years *

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>The City's proportion of the net pension liability (asset)</u>	0.005237%	0.005163%	0.005108%	0.005066%
<u>The City's proportionate share of the net pension liability (asset)</u>	\$ (79,457)	\$ (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%	0.00%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	135.96%	123.74%	127.36%	126.91%

* This schedule is intended to show information for the last 10 years however only four 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, 2017
Last 10 Fiscal Years *

	2017	2016	2015	2014
The City's proportion of the net pension liability (asset)	0.064740%	0.065121%	0.063719%	0.062773%
The City's proportionate share of the net pension liability (asset)	\$ (898,381)	\$ (378,763)	\$ (654,904)	\$ (833,025)
The State of Washington's proportionate share of the net pension liability (asset) associated with the City	\$ (582,763)	\$ (246,926)	\$ (433,023)	\$ (544,283)
TOTAL	\$ (1,481,145)	\$ (625,689)	\$ (1,087,927)	\$ (1,377,308)
The City's covered employee payroll in LEOFF 2	\$ 2,025,171	\$ 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	-44.36%	-19.20%	-35.41%	-47.69%
Plan fiduciary net position as a percentage of the total pension liability	113.36%	106.04%	111.67%	116.75%

* This schedule is intended to show information for the last 10 years however only four 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, 2017
Last 10 Fiscal Years *

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Contractually required contributions (actuarially determined)</u>	\$ 381,731	\$ 350,071	\$ 310,417	\$ 269,414
<u>Contributions in relation to the contractually required contributions</u>	\$ (381,731)	\$ (350,071)	\$ (310,417)	\$ (269,414)
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Covered employer payroll</u>	\$ 7,624,452	\$ 7,195,872	\$ 6,989,870	\$ 6,547,257
<u>Contributions as a percentage of covered employee payroll</u>	5.01%	4.86%	4.44%	4.11%

* This schedule is intended to show information for the last 10 years however only four 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, 2017
Last 10 Fiscal Years *

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Contractually required contributions (actuarially determined)</u>	\$ 525,708	\$ 454,418	\$ 384,415	\$ 321,803
<u>Contributions in relation to the contractually required contributions</u>	\$ (525,708)	\$ (454,418)	\$ (384,415)	\$ (321,803)
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Covered employer payroll</u>	\$ 7,505,804	\$ 7,083,242	\$ 6,883,331	\$ 6,442,891
<u>Contributions as a percentage of covered employee payroll</u>	7.00%	6.42%	5.58%	4.99%

* This schedule is intended to show information for the last 10 years however only four 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, 2017
Last 10 Fiscal Years *

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Contractually required contributions (actuarially determined)</u>	\$ 116,464	\$ 103,365	\$ 96,865	\$ 90,284
<u>Contributions in relation to the contractually required contributions</u>	<u>\$ (116,464)</u>	<u>\$ (103,365)</u>	<u>\$ (96,865)</u>	<u>\$ (90,284)</u>
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Covered employer payroll</u>	\$ 2,180,981	\$ 1,976,382	\$ 1,918,110	\$ 1,787,799
<u>Contributions as a percentage of covered employee payroll</u>	5.34%	5.23%	5.05%	5.05%

* This schedule is intended to show information for the last 10 years however only four 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, 2017

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, 2017

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Revised	(Budgetary Basis)	Final Budget
REVENUES				
Property Taxes	\$ 7,224,000	\$ 7,224,000	\$ 7,305,973	\$ 81,973
Other Taxes	7,553,247	7,553,247	8,414,654	861,407
Fees and Fines	109,000	109,000	95,260	(13,740)
Licenses and Permits	570,000	570,000	618,713	48,713
Intergovernmental	313,100	323,100	463,432	140,332
Charges for Services	391,558	391,558	454,448	62,890
Interest	82,933	82,933	214,564	131,631
Other Revenues	54,000	54,000	173,530	119,530
Total REVENUES	16,297,838	16,307,838	17,740,574	1,432,736
EXPENDITURES				
General Government	5,391,140	5,090,760	4,026,952	1,063,808
Judicial	700,850	700,850	643,074	57,776
Public Safety	5,144,123	5,248,749	5,079,219	169,531
Physical Environment	1,371,884	1,385,504	1,049,737	335,767
Transportation	0	125,000	5,842	119,158
Health and Human Services	56,700	257,200	253,274	3,926
Economic Environment	1,271,054	1,583,657	1,275,970	307,687
Culture and Recreation	526,616	599,539	446,547	152,993
Debt Service - Interest	3,000	3,000	2,283	717
Capital Outlay	613,600	557,093	679,606	(122,512)
Total EXPENDITURES	15,078,968	15,551,353	13,462,502	2,088,850
Operating Income (Loss)	1,218,870	756,485	4,278,072	3,521,586
OTHER FINANCING SOURCES/USES				
Proceeds from Sale of Capital Assets	405,000	405,000	18,618	(386,382)
Transfers - Out	(5,317,988)	(6,234,988)	(4,963,570)	1,271,418
Transfers - In	0	0	877,836	877,836
Total OTHER FINANCING SOURCES/USES	(4,912,988)	(5,829,988)	(4,067,116)	1,762,872
Net Change in Fund Balance	(3,694,118)	(5,073,503)	210,956	5,284,459
Fund Balances -- Beginning	12,617,071	15,390,702	15,390,702	0
Prior Period Adjustment	-	-	(226,828)	(226,828)
Total Ending Fund Balance	\$ 8,922,953	\$ 10,317,200	\$ 15,374,830	\$ 5,057,630

CITY OF BAINBRIDGE ISLAND, WASHINGTON
Budgetary Comparison Schedule
Real Estate Excise Tax Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Revised	(Budgetary Basis)	Final Budget
REVENUES				
Other Taxes	\$ 2,600,000	\$ 2,600,000	\$ 3,356,147	\$ 756,147
Interest	120	120	522	402
Total REVENUES	2,600,120	2,600,120	3,356,669	756,549
Operating Income (Loss)	2,600,120	2,600,120	3,356,669	756,549
OTHER FINANCING SOURCES/USES				
Transfers - Out	(2,625,120)	(3,325,120)	(3,325,005)	115
Total OTHER FINANCING SOURCES/USES	(2,625,120)	(3,325,120)	(3,325,005)	115
Net Change in Fund Balance	(25,000)	(725,000)	31,664	756,664
Fund Balances -- Beginning	60,000	25,137	25,137	0
Total Ending Fund Balance	\$ 35,000	\$ (699,863)	\$ 56,801	\$ 756,664

**City of Bainbridge Island
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017**

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		
Fish And Wildlife Service, Department Of The Interior (via Washington State Recreation and Conservation Office)	Sportfishing and Boating Safety Act	15.622	F-16AP00267 & 15-1253D	77,106	-	77,106	-	
National Park Service, Department Of The Interior (via Washington State Department of Archeology and Historic Preservation)	Historic Preservation Fund Grants-In-Aid	15.904	FY17-61017- 001	4,500	-	4,500	-	
Bureau Of Justice Assistance, Department Of Justice (via N/A- direct federal assistance)	Bulletproof Vest Partnership Program	16.607	None	2,772	-	2,772	-	
Highway Planning and Construction Cluster								
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	TAP-0305 (20)/LA-8505	1,701,052	-	1,701,052	-	
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUS-6705 (001)/LA-8965	134,268	-	134,268	-	
Total Highway Planning and Construction Cluster:				1,835,320	-	1,835,320	-	
Highway Safety Cluster								
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington State Traffic Safety Commission)	State and Community Highway Safety	20.600	None	475	-	475	-	

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, 2017

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	1,801	-	1,801	-	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington State Traffic Safety Commission)	State and Community Highway Safety	20.600	None	2,070	-	2,070	-	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington State Traffic Safety Commission)	State and Community Highway Safety	20.600	None	179	-	179	-	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington State Traffic Safety Commission)	State and Community Highway Safety	20.600	None	7,000	-	7,000	-	
Total Highway Safety Cluster:				11,525	-	11,525	-	
United States Coast Guard (uscg), Department Of Homeland Security (via Washington State Park and Recreation Commission)	Boating Safety Financial Assistance	97.012	3314FAS14015 3	18,075	-	18,075	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Kitsap County Dept. of Emergency Management)	Homeland Security Grant Program	97.067	None	5,869	-	5,869	-	
Total Federal Awards Expended:				1,955,167	-	1,955,167	-	

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, 2017

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 applicable to governmental entities. See Note 1 (Summary of Significant Accounting Policies) to the City's financial statements for more information.

NOTE 2 – PROGRAM COSTS

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 Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – STATE LOANS

Over the years the City has been awarded State Public Works Trust Fund loans by the Washington State Department of Community Development. Loan principle payments and balances outstanding at year end are shown in Note 8 (Long-term Liabilities) to the City's financial statements.

NOTE 4 – FEDERAL FUNDS OBLIGATED UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

In early 2011, the Washington State Department of Commerce (Commerce) advanced the City \$100,000 in U.S. Department of Energy, Energy Efficiency and Conservation Block Grant (EECBG) funds. The City then disbursed the funds to the Kitsap Credit Union (KCU) under the Bainbridge Energy Challenge program. These funds were used by KCU as loan loss reserves, which allowed KCU to offer lower than market interest rates to homeowners for energy efficient home improvements. KCU ended the loan program in 2016 and returned the \$100,000 to the City. Commerce has approved the City to use the funds on several other EECBG approved programs and as of the end of 2017 approximately half the funds have been used with the remainder budgeted for 2018.

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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