



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Bainbridge Island

For the period January 1, 2021 through December 31, 2021

Published July 7, 2022

Report No. 1030857



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

July 7, 2022

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,

Pat McCarthy, State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Bainbridge Island January 1, 2021 through December 31, 2021

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 basic 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 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

See Finding 2021-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Bainbridge Island January 1, 2021 through December 31, 2021

2021-001 The City's internal controls were inadequate for ensuring proper revenue recognition for grant funds received in advance.

Background

State and federal agencies, the City Council, and the public rely on information included in the financial statements and reports to make decisions. Management is responsible for designing and following internal controls that provide reasonable assurance the City's financial reporting is reliable and its financial statements are accurate.

The City prepares its financial statements in accordance with generally accepted accounting principles (GAAP).

Our audit found deficiencies in internal controls over accounting and financial reporting that affected the City's ability to produce reliable financial statements. *Government Auditing Standards* requires the State Auditor's Office to communicate material weaknesses in internal controls as a finding.

Description of Condition

During 2021, the City received \$3,534,392 of American Rescue Plan Act of 2021 (ARPA) grant advance funds, but did not incur any eligible ARPA expenditures. We found a deficiency in internal controls that represents a material weakness. Specifically, the City did not properly evaluate whether it had met eligibility requirements, including incurring eligible expenditures, as required to recognize the grant funds received as revenue.

Cause of Condition

The City typically receives grant funding on a reimbursement basis, under which it incurs eligible expenditures before receiving grant funding. City employees were not familiar with the revenue recognition criteria for unspent ARPA funds, which should be reported as unearned revenue, a liability, until the applicable eligibility requirements are met.

Effect of Condition

We found the following errors in the City's financial statements:

- The ARPA Fund Intergovernmental revenue and Restricted Fund Balance were each overstated by \$3,534,392, and Unearned Revenue was understated by the same amount.
- The Governmental Activities Operating Grants and Contributions revenue and Restricted Net Position were each overstated by \$3,534,392, and Unearned Revenue was understated by the same amount.

The City subsequently corrected these errors in the financial statements.

Recommendation

We recommend the City improve its controls to ensure it properly classifies and reports grant funds received in advance in accordance with GAAP. This includes evaluating whether the City has met revenue recognition criteria.

City's Response

The City concurs with the audit finding and will monitor for this situation in the future.

Auditor's Remarks

We appreciate the City's commitment to resolving this finding and thank it for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

Government Auditing Standards, July 2018 Revision, paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

The Budgeting, Accounting and Reporting System (BARS) manual, 3.1.3, Internal Control, required each local government to establish and maintain an

effective system of internal controls that provides reasonable assurance that the government will achieve its objective.

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.

Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, Paragraph 15.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Paragraph 10.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Bainbridge Island January 1, 2021 through December 31, 2021

This schedule presents the status of findings reported in prior audit periods.

Audit Period: January 1, 2020 through December 31, 2020	Report Ref. No.: 1029122	Finding Ref. No.: 2020-001
Finding Caption: <p>The City lacked adequate internal controls for ensuring accurate financial reporting of its capital assets.</p>		
Background: <p>The City shares ownership of multiple land assets with another local government and reports those assets in its financial statements. In recent years, the City deeded its ownership interest in some of the assets shared with the other government.</p> <p>Our audit identified a significant deficiency in internal controls. The City lacked an effective process for ensuring capital assets it no longer owned were properly removed from the capital asset listing and excluded from the financial statements.</p>		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between;"> <div> <input checked="" type="checkbox"/> Fully Corrected </div> <div> <input type="checkbox"/> Partially Corrected </div> <div> <input type="checkbox"/> Not Corrected </div> <div> <input type="checkbox"/> Finding is considered no longer valid </div> </div>		
Corrective Action Taken: <p><i>The City implemented the following additional procedures to strengthen internal controls over capital assets:</i></p> <ul style="list-style-type: none"> <i>A review of all City Council minutes each year going forward for any capital asset activity, including nonmonetary transactions.</i> <i>Performed a comprehensive review of all land assets in the City's capital asset system.</i> 		

INDEPENDENT AUDITOR'S REPORT

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 January 1, 2021 through December 31, 2021

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, as of and for the year ended December 31, 2021, 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 29, 2022.

REPORT ON 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) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, as described in the accompanying Schedule of Audit Findings and Responses as Finding 2021-001, that we consider to be a material weakness.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

CITY'S RESPONSE TO FINDINGS

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 29, 2022

INDEPENDENT AUDITOR'S REPORT

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 January 1, 2021 through December 31, 2021

City Council
City of Bainbridge Island
Bainbridge Island, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of the City of Bainbridge Island, with the types of compliance requirements identified as subject to audit 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, 2021. The City's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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, 2021.

Basis for Opinion on Each Federal Program

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)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

Performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed; and

- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.



Pat McCarthy, State Auditor
Olympia, WA
June 29, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Bainbridge Island January 1, 2021 through December 31, 2021

City Council
City of Bainbridge Island
Bainbridge Island, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

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, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The 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 29, 2022 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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.

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 29, 2022

FINANCIAL SECTION

City of Bainbridge Island January 1, 2021 through December 31, 2021

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2021

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2021

Statement of Activities – 2021

Balance Sheet – Governmental Funds – 2021

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net
Position – 2021

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2021

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities – 2021

Statement of Net Position – Proprietary Funds – 2021

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2021

Statement of Cash Flows – Proprietary Funds – 2021

Statement of Net Position – Fiduciary Funds – 2021

Statement of Changes in Net Position – Fiduciary Funds – 2021

Notes to the Financial Statements – 2021

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in Total OPEB Liability and Related Ratios – City of Bainbridge
Island Administered OPEB Plan – 2021

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3, LEOFF 1,
LEOFF 2 – 2021

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 2 – 2021

Notes to Pension Plans Required Supplementary Information – 2021

Budgetary Comparison Schedule – General Fund – 2021

Budgetary Comparison Schedule – Street Fund – 2021

Budgetary Comparison Schedule – Real Estate Excise Tax Fund – 2021

Budgetary Comparison Schedule – American Rescue Plan Act Fund – 2021

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2021

Notes to the Schedule of Expenditures of Federal Awards – 2021



CITY OF BAINBRIDGE ISLAND, WASHINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2021

This narrative provides an overview and analysis of the City of Bainbridge Island's (City) financial activities for the fiscal year ended December 31, 2021. 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 this information in conjunction with the accompanying transmittal letter, basic financial statements, and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The City's assets and deferred outflows exceeded its liabilities and deferred inflows at the close of 2021 by \$194,129,914. Of this amount, \$38,240,825, or 20%, is reported as unrestricted net position and may be used to meet the City's ongoing obligations to citizens and creditors.
- Despite the global pandemic the City's total net position increased by \$5,457,077, or 3%. This increase was primarily the result of increases in the City's cash position and pension asset offset by a smaller decrease in capital assets and a smaller increase in deferred inflows on pensions.
- At the close of 2021, the City's governmental funds reported combined ending fund balances of \$37,733,527; an increase of \$4,463,317, or 13%, in comparison to the prior year. This increase was primarily due to general fund expenditures staying significantly below revenues and internal operating transfers into the capital construction fund.
- Total revenues for governmental activities increased just \$76,616, or less than ½ a percent. This was primarily due to increases in taxes offset by similar decreases in grants and contributions. Property taxes, the single largest tax source, increased by \$147,819, or 2%.
- The City's total liabilities decreased by \$1,965,614, or 6%, to \$30,393,390. This was primarily due to normal debt service on existing bonds offset by a significant increase in unearned revenues due to American Rescue Plan Act (ARPA) grant funds received before they were earned.
- A significant change in long-term obligations for the City's pension debt occurred with the 2015 implementation of Governmental Accounting Standards Board (GASB) Statements No. 68 and 71, as amended. This resulted in pension-related debt of \$695,326 at year-end 2021 as compared to \$3,004,218 at year-end 2020, a decrease of 77%. This change in accounting standards also resulted in a deficit net position in the Building and Development Service Fund of (\$394,316) at year-end 2021. More information about the deficit net position and pension liability can be found in Note 1.G., Note 6, and Note 8 in 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 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 outflows, liabilities, and deferred inflows, 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 the 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, most funds are established to satisfy managerial control over resources or 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 2021 these funds include the General Fund, the Street Fund, the Real Estate Excise Tax Fund, the Capital Construction Fund, and the American Rescue Plan Act (ARPA) Fund. All other Governmental Funds are reported in a single column (non-major funds). The City also presents a combining statement for the non-major governmental 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 net position* and a *statement of changes in 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

Despite the global pandemic the City's financial position improved in 2021. The City reacted to the spring of 2020 pandemic-related decline in revenue by implementing a spending plan with expenditures intentionally reduced to save the City about 10%, or \$2.7 million, below previously budgeted amounts. The City continued the spending plan reductions into 2021 but at a reduced level. This strategy stabilized the City's financial condition while maintaining adequate fund balances. The resulting financial condition helped minimize 2021 and 2022 budget reductions and allowed the City to avoid layoffs and furloughs. It ultimately helped increase the 2021 ending general fund balance.

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	
	2021	2020	2021	2020	2021	2020
Cash and Cash Equivalents	\$ 43,679,901	\$ 35,918,897	\$17,960,397	\$18,193,764	\$ 61,640,298	\$ 54,112,661
Other Assets	10,889,558	5,003,499	3,812,530	838,420	14,702,088	5,841,919
Capital Assets	110,426,834	114,912,852	46,021,898	46,048,233	156,448,733	160,961,084
Total Assets	164,996,294	155,835,248	67,794,826	65,080,417	232,791,120	220,915,664
Deferred Outflows of Resources	865,959	915,691	355,856	404,406	1,221,815	1,320,097
Other Liabilities	6,091,077	2,810,256	1,338,178	1,493,234	7,429,255	4,303,490
Long Term Debt	14,245,363	17,013,662	8,718,772	11,041,852	22,964,135	28,055,514
Total Liabilities	20,336,440	19,823,919	10,056,950	12,535,086	30,393,390	32,359,004
Deferred Inflows of Resources	6,210,722	813,784	3,278,908	390,136	9,489,630	1,203,920
Net Investment in Capital Assets	100,917,645	104,439,400	37,725,161	36,838,964	138,642,806	141,278,365
Restricted	13,752,526	6,393,950	3,493,757	642,225	17,246,283	7,036,175
Unrestricted	24,644,919	25,279,885	13,595,906	15,078,411	38,240,825	40,358,297
Total Net Position	\$139,315,090	\$136,113,236	\$54,814,824	\$52,559,601	\$194,129,914	\$188,672,837

In 2021, the total net position of the City increased \$5,477,077, or 3%. Governmental activities net position increased \$3,201,854, or 2%, primarily due to increases in the governmental cash position and pension asset offset by a smaller increase in deferred inflows on pensions. Business-type activities net position increased \$2,255,223, or 4%.

Governmental activities cash and cash equivalents increased by \$7,761,004, or 22%, while business-type activities cash and cash equivalents decreased \$233,366, or 1%. The governmental activities increase is primarily the result of receipt of federal ARPA funds along with positive operating results.

SUMMARY OF CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
Program Revenues						
Charges for Services	\$ 1,199,269	\$ 1,481,834	\$ 9,552,954	\$ 8,899,041	\$ 10,752,223	\$ 10,380,875
Operating Grants & Contributions	590,991	1,969,476	103,114	-	694,105	1,969,476
Capital Grants & Contributions	2,659,495	2,884,341	463,386	2,313,014	3,122,881	5,197,355
Total Program Revenues	4,449,755	6,335,651	10,119,454	11,212,055	14,569,209	17,547,706
General Revenues						
Property Taxes	8,648,065	8,500,246	-	-	8,648,065	8,500,246
All Other Taxes	15,950,092	14,106,994	-	-	15,950,092	14,106,994
Interest	101,584	257,041	44,436	134,542	146,021	391,583
Other Revenues	918,670	791,619	62,119	36,929	980,789	828,548
Total General Revenues	25,618,412	23,655,900	106,556	171,472	25,724,968	23,827,371
Total Revenues	30,068,167	29,991,551	10,226,010	11,383,527	40,294,177	41,375,077
Program Expenses						
General Government	5,688,223	5,682,522	-	-	5,688,223	5,682,522
Judicial	499,398	657,606	-	-	499,398	657,606
Public Safety	5,354,518	7,128,370	-	-	5,354,518	7,128,370
Physical Environment	642,476	863,806	-	-	642,476	863,806
Transportation	4,659,514	4,059,310	-	-	4,659,514	4,059,310
Health & Human Svcs	512,811	418,501	-	-	512,811	418,501
Econ. Environment	1,098,869	1,344,350	-	-	1,098,869	1,344,350
Culture & Recreation	1,044,478	1,064,202	-	-	1,044,478	1,064,202
Water	-	-	1,471,726	1,598,196	1,471,726	1,598,196
Sewer	-	-	3,938,428	3,792,986	3,938,428	3,792,986
Storm & Surface Water Management	-	-	1,811,976	1,705,754	1,811,976	1,705,754
Building & Development Svcs	-	-	2,263,614	2,739,583	2,263,614	2,739,583
Total Program Expenses	19,500,287	21,218,668	9,485,743	9,836,518	28,986,031	31,055,186
Excess/(Deficiency)	10,567,879	8,772,883	740,266	1,547,009	11,308,146	10,319,892
Other						
Transfers	(1,514,957)	(1,691,777)	1,514,957	1,691,777	-	-
Changes in Net Position	9,052,922	7,081,106	2,255,223	3,238,786	11,308,146	10,319,892
Beginning Net Position	136,113,236	129,032,130	52,559,601	49,320,815	188,672,837	178,352,945
Prior Period Adjustments	(5,851,069)	-	-	-	(5,851,069)	-
Ending Net Position	\$139,315,090	\$136,113,236	\$54,814,824	\$52,559,601	\$194,129,914	\$188,672,837

GOVERNMENTAL ACTIVITIES

In 2021, the net position of governmental activities increased \$3,201,854, or 2%, to \$139,315,090.

In 2021, governmental activities program revenues decreased \$1,885,896, or 30%, primarily due to an decrease in operating grants and contributions. The most significant revenue component of governmental activities is the general tax base. At \$24,598,158, taxes represent 82% of the \$30,068,167 in total revenues for 2021. Property tax is the single largest source of governmental activities revenue at \$8,648,065, or 29% of total revenues.

Governmental activities program expenses in total decreased by \$1,718,380, or 8%, in 2021 as compared to 2020. Expenses increased in three program categories. The largest dollar increase was in Transportation at \$600,204, or 15%, more in 2021 than 2020. The second largest increase was in Health and Human Services at \$94,310, or 23%. The largest decrease was in Public Safety expenses by \$1,773,851, or 25%. The second largest decrease was in Economic Environment at \$245,480 or 18%.

BUSINESS-TYPE ACTIVITIES

In 2021, there was an increase in net position related to business-type activities of \$2,255,223, or 4%, to \$54,814,824.

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 an operating loss of \$117,289. This loss was offset by contributed capital resulting in an increase in net position. The Building and Development Services Fund showed a net operating loss of \$927,334. The fund's activity recovered only 59% of its operating expenses with operating revenues, less than the City Council's policy goal of 63% cost recovery. Operating transfers from the General Fund provided additional revenue to cover program costs.

ANALYSIS OF BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

The General Fund balance increased \$3,223,648, or 18%, primarily because of increases in tax revenue and reductions in debt service. The General Fund ended 2021 with a fund balance of \$21,231,016, which is 104% of total revenues.

The Street Fund balance increased \$138,064, or 104%, primarily due to increases in taxes, intergovernmental revenue, and transfers in from other funds offset by somewhat smaller increases in transportation expenses.

The Capital Construction Fund ended 2021 with a fund balance of \$11,315,005, an increase of \$910,932, or 9%, primarily due to increases in intergovernmental revenues and net transfers in from other funds.

The Building and Development Services fund ended 2021 with a deficit unrestricted net position of (\$1,745,651) significantly more than the prior year of (\$923,189), due to a restricted net position related to net pension asset and to rising revenues from increased development activity and slightly lower labor expenses due to the difficulty in hiring employees.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original 2021 adopted budget anticipated a decrease of \$1,924,285, or 13%, in the budgetary fund balance during the year from \$14,639,000 to \$12,714,715. The budget anticipated a small decrease in overall revenue along with increases in transfers out to other funds to fund both operating and capital projects. The revised 2021 budget used updated information and revised both revenues and expenditures up. The City anticipated increases in tax revenue and in almost all expenditure categories. The actual 2021 ending fund balance was \$21,231,016, an increase of \$3,223,648.

Actual total revenues exceeded the final budget by \$733,512. A significant portion of this was due to non-property taxes and intergovernmental revenue that were higher than budgeted. Actual total expenditures were \$3,468,625 less than the revised budget driven primarily by the number of open positions at the City.

To learn more about the City's budget process and economic challenges, see Note 1.E. in the *notes to the financial statements*, economic and other factors below, and the required supplementary information.

CAPITAL ASSETS

The City's total investment in capital assets (net of depreciation) decreased \$4,512,352 to a total of \$156,448,733 in 2021. Governmental assets represent 71% of the City's overall investment in capital assets. Land represents 53% 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.

During 2021 total land decreased \$5,079,134, or 8%, due to the removal of certain governmental land assets the City no longer owned. This resulted in a prior period adjustment as described in Note 15 in the *notes to financial statements*. Governmental infrastructure assets increased \$4,425,398, or 8%, primarily due to the completion of the Wyatt Way street improvement project.

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	
	2021	2020	2021	2020	2021	2020
Land	\$ 58,391,438	\$63,470,573	\$ 1,796,865	\$ 1,796,865	\$ 60,188,304	\$ 65,267,438
Buildings & Improvements	16,524,385	16,467,161	54,728	54,728	16,579,113	16,521,889
Intangible Assets	880,000	880,000	32,365	32,365	912,365	912,365
Vehicles & Equipment	9,875,974	9,144,770	420,222	431,430	10,296,196	9,576,200
Infrastructure	60,286,149	55,860,750	70,301,204	69,367,980	130,587,352	125,228,730
Construction in Progress	11,824,639	13,764,172	2,153,883	1,614,802	13,978,522	15,378,973
Accumulated Depreciation	(47,355,750)	(44,674,573)	(28,737,369)	(27,249,937)	(76,093,119)	(71,924,511)
Totals	\$110,426,834	\$114,912,852	\$46,021,898	\$46,048,233	\$156,448,733	\$160,961,084

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 2021 the City's total long-term debt decreased by \$2,346,917, or 11%, as compared to 2020. Governmental activities long-term debt decreased \$1,161,029, or 10%, due to normal debt retirement. Business-type activities long-term debt decreased \$1,185,888, or 13%, also due to normal debt retirements. During 2021 the City refunded its 2011 sewer bonds in the Business-type activities to realize future interest rate savings. Of the debt outstanding at the end of 2021, 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	
	2021	2020	2021	2020	2021	2020
General Obligation Bonds	\$10,160,000	\$11,260,000	\$ 2,750,000	\$2,950,000	\$12,910,000	\$14,210,000
LID Bonds	74,727	112,091	-	-	74,727	112,091
Intergovernmental Loans	165,654	189,319	5,175,455	6,161,343	5,341,109	6,350,662
Totals	\$10,400,381	\$ 11,561,410	\$ 7,925,455	\$9,111,343	\$18,325,836	\$20,672,753

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 global pandemic cast a large shadow over the economic outlook for the City and the country as a whole. The economic contraction in the U.S was unprecedented as local, state, and federal leaders worked through impacts caused by measures designed to suppress transmission of the virus.

During 2021, although not initially anticipated, the City revised governmental fund revenue projections upward in most categories, with primary impact on the general and real estate excise tax funds. Year-end results showed actual increases in revenue over amounts anticipated and recent months' 2022 trends show greater than budgeted recovery in City revenue streams in most categories. In addition, during 2021 the City received \$3.5 million federal ARPA grant. The City Council plans to use these grant funds for affordable housing initiatives, sustainable transportation projects, wastewater beneficial reuse, solar panels on emergency operation hubs, and human services funding.

The economic effects of the pandemic on the City were somewhat muted due the City's diverse revenue streams, many of which did not see the level of reductions experienced by other governmental entities. The City was also in a very strong financial position prior to the pandemic due to measures implemented after the "great recession." In addition, the City had a large existing volunteer base organized in case of emergencies. This included Bainbridge Prepares, a Medical Reserve Corp, and others that were transitioned to COVID-19 testing and then vaccination. This allowed the City to avoid significant pandemic related costs.

CITY OF BAINBRIDGE ISLAND, WASHINGTON

Statement of Net Position

As of December 31, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 43,514,513	\$ 17,172,758	\$ 60,687,271
Receivables - Net	2,316,841	157,917	2,474,758
Due from Other Governments	452,048	30,504	482,553
Inventories	153,230	59,459	212,689
Restricted Cash - Debt Service	-	453,560	453,560
Restricted Cash - Customer Deposits	165,388	334,079	499,468
Prepays	84,223	-	84,223
Special Assessments Receivable	-	524,453	524,453
Net Pension Asset	7,883,216	3,040,197	10,923,413
Depreciable Capital Assets (Net)	39,330,757	42,071,150	81,401,907
Land	58,391,438	1,796,865	60,188,304
Construction in Progress	11,824,639	2,153,883	13,978,522
Other Capital Assets	880,000	-	880,000
Total Assets	164,996,294	67,794,826	232,791,120
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows on Debt Refunding	59,710	-	59,710
Deferred Outflows on Pensions	793,957	355,856	1,149,813
Deferred Outflows on OPEB	12,292	-	12,292
Total Deferred Outflows of Resources	865,959	355,856	1,221,815
LIABILITIES			
Accounts Payable	932,559	540,426	1,472,986
Accrued Expenses	606,766	244,651	851,417
Unearned Revenue	4,386,364	219,021	4,605,385
Other Liabilities	165,388	334,079	499,468
Special Assessment Debt with Governmental Commitment	74,727	-	74,727
Non-Current Liabilities Due Within One Year	1,639,245	1,592,710	3,231,955
Non-Current Liabilities Due in More Than One Year	11,888,574	6,649,567	18,538,141
Compensated Absences Due in More Than One Year	254,017	169,969	423,986
Net Pension Liability Due in More Than One Year	388,800	306,526	695,326
Total Liabilities	20,336,441	10,056,950	30,393,390
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows Gain on Refunding	-	97,925	97,925
Deferred Inflows on Pensions	6,210,722	3,180,983	9,391,705
Total Deferred Inflows of Resources	6,210,722	3,278,908	9,489,630
NET POSITION			
Net Investment in Capital Assets	100,917,645	37,725,161	138,642,806
Restricted for:			
Net Pension Asset	7,883,216	3,040,197	10,923,413
Debt Service	169,062	453,560	622,621
Public Safety	80,630	-	80,630
PEG Capital	118,047	-	118,047
Economic Development	580,741	-	580,741
Transportation	1,494,842	-	1,494,842
Real Estate Excise Taxes	3,425,988	-	3,425,988
Unrestricted	24,644,919	13,595,906	38,240,825
Total Net Position	\$ 139,315,090	\$ 54,814,824	\$ 194,129,914

CITY OF BAINBRIDGE ISLAND, WASHINGTON
Statement of Activities
For the year ended December 31, 2021

	Program Revenues					Net (Expense)/Revenue and Changes in Net Position	
	Primary Government					Business-Type	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 5,350,407	\$ 936,493	\$ -	\$ -	\$ (4,413,914)	\$ -	\$ (4,413,914)
Judicial	499,398	11,973	-	-	(487,425)	-	(487,425)
Public Safety	5,354,518	59,499	71,405	71,818	(5,151,796)	-	(5,151,796)
Physical Environment	642,476	1,840	6,175	254,338	(380,123)	-	(380,123)
Transportation	4,659,514	31,927	513,411	2,283,339	(1,830,838)	-	(1,830,838)
Health and Human Services	512,811	-	-	-	(512,811)	-	(512,811)
Economic Environment	1,098,869	156,288	-	-	(942,581)	-	(942,581)
Culture and Recreation	1,044,479	1,250	-	50,000	(993,229)	-	(993,229)
Interest on Long Term Debt	337,815	-	-	-	(337,815)	-	(337,815)
Total Government Activities	19,500,288	1,199,269	590,991	2,659,495	(15,050,533)	-	(15,050,533)
Business-Type Activities:							
Water	1,471,726	1,354,436	-	175,954	-	58,665	58,665
Sewer	3,938,428	4,120,550	-	287,432	-	469,554	469,554
Storm and Surface Water Management	1,811,976	2,741,687	103,114	-	-	1,032,826	1,032,826
Building and Development Services	2,263,614	1,336,280	-	-	-	(927,334)	(927,334)
Total Business-Type Activities	9,485,743	9,552,954	103,114	463,386	-	633,711	633,711
Total Primary Government	\$ 28,986,031	\$ 10,752,223	\$ 694,105	\$ 3,122,881	\$ (15,050,533)	\$ 633,711	\$ (14,416,822)
General Revenues:							
Property Taxes Levied for General Purposes					\$ 8,032,002	\$ -	\$ 8,032,002
Property Taxes Levied for Debt Service					616,063	-	616,063
Sales and Use Taxes					6,844,196	-	6,844,196
Business and Occupation Taxes					4,220,110	-	4,220,110
Excise Taxes					4,885,786	-	4,885,786
Unrestricted Investment Earnings					101,584	44,436	146,021
Grants and Contributions not Restricted to Specific Programs					519,674	-	519,674
Miscellaneous					398,996	62,119	461,115
Transfers					(1,514,957)	1,514,957	-
Total General Revenues and Transfers					24,103,456	1,621,513	25,724,968
Change in Net Position					9,052,923	2,255,223	11,308,146
Prior-Period Adjustment					(5,851,069)	-	(5,851,069)
Net Position - Beginning					136,113,236	52,559,601	188,672,837
Net Position - Ending					\$ 139,315,090	\$ 54,814,824	\$ 194,129,915

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, 2021

	General	Street	Real Estate Excise Tax	Capital Construction	American Rescue Plan Act	Non-Major Governmental Funds	Total Governmental Funds
ASSETS							
Cash and Cash Equivalents	\$ 20,144,872	\$ 137,210	\$ 2,540,049	\$ 11,432,466	\$ 3,539,477	\$ 3,121,924	\$ 40,915,997
Receivables - Net	2,074,956	108,513	40,656	-	-	92,716	2,316,841
Inventories	12,258	140,971	-	-	-	-	153,230
Due From Other Governments	170,853	46,049	-	235,147	-	-	452,048
Customer Deposits	165,388	-	-	-	-	-	165,388
Total Assets	\$ 22,568,327	\$ 432,744	\$ 2,580,705	\$ 11,667,612	\$ 3,539,477	\$ 3,214,640	\$ 44,003,504
LIABILITIES							
Accounts Payable	\$ 525,792	\$ 38,135	\$ -	\$ 336,781	\$ -	\$ 31,852	\$ 932,559
Accrued Expenditures	446,791	113,245	-	9,418	-	-	569,454
Unearned Revenue	(0)	-	-	-	3,534,392	851,972	4,386,364
Other Liabilities	165,388	-	-	-	-	-	165,388
Total Liabilities	\$ 1,137,971	\$ 151,381	\$ -	\$ 346,199	\$ 3,534,392	\$ 883,824	\$ 6,053,765
DEFERRED INFLOWS OF RESOURCES							
Unavailable Revenues - Grants	\$ 1,461	\$ -	\$ -	\$ 6,409	\$ -	\$ -	\$ 7,870
Unavailable Revenues - Property Taxes	93,870	-	-	-	-	-	93,870
Unavailable Revenues - Other Taxes & Fees	60,997	10,463	-	-	-	-	71,460
Unavailable Revenues - Court Fines	43,012	-	-	-	-	-	43,012
Unavailable Revenues - Special Assessments	0	-	-	-	-	-	0
Total Deferred Inflows of Resources	\$ 199,340	\$ 10,463	\$ -	\$ 6,409	\$ -	\$ -	\$ 216,212
FUND BALANCES							
Nonspendable	\$ 71,429	\$ 140,971	\$ -	\$ -	\$ -	\$ -	\$ 212,401
Restricted	198,677	29,218	2,580,705	845,283	-	2,215,427	5,869,310
Committed	276,778	-	-	-	-	108,728	385,506
Assigned	481,104	100,711	-	10,469,722	5,085	6,661	11,063,283
Unassigned	20,203,027	-	-	-	-	-	20,203,027
Total Fund Balances	\$ 21,231,016	\$ 270,901	\$ 2,580,705	\$ 11,315,005	\$ 5,085	\$ 2,330,816	\$ 37,733,527
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 22,568,327	\$ 432,744	\$ 2,580,705	\$ 11,667,612	\$ 3,539,477	\$ 3,214,640	\$ 44,003,504

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, 2021

Ending fund balance - governmental funds	\$ 37,733,527
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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.	108,013,565
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Other Assets are not available to pay current-period expenditures and, therefore, are deferred in the governmental funds.	84,223
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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.	7,883,216
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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	59,710
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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	7,870
Deferred Inflows of Resources - Court Fines	43,012
Deferred Inflows of Resources - Special Assessments	-
Deferred Inflows of Resources - Property Taxes	93,870
Deferred Inflows of Resources - Other Revenues	71,460

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

Accrued expenses		(37,312)
Due within one year	(470,580)	
Due outside one year	(254,017)	
Compensated absences		(724,597)
Long-term liabilities		(13,131,966)
Net pension liability		(388,800)

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	5,011,786
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Amounts reported as deferred outflows and inflows of resources related to pensions and OPEB will be amortized and recognized as components of pension or OPEB expense in future years.

Deferred outflow of resources related to OPEB	12,292
Deferred outflow of resources related to pensions	793,957
Deferred inflow of resources related to pensions	(6,210,722)

Net Position of Major Governmental Activities	\$ 139,315,090
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CITY OF BAINBRIDGE ISLAND, WASHINGTON
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the year ended December 31, 2021

	General	Street	Real Estate Excise Tax	Capital Construction	American Rescue Plan Act	Non-Major Governmental Funds	Total Governmental Funds
REVENUES							
Property Taxes	\$ 8,061,834	\$ -	\$ -	\$ -	-	\$ 616,063	\$ 8,677,896
Sales, Business, and Excise Taxes	10,436,343	331,270	4,225,695	-	-	985,332	15,978,640
Fees and Fines	24,629	-	-	-	-	-	24,629
Licenses and Permits	655,275	30,180	-	-	-	-	685,455
Intergovernmental	741,911	513,394	-	1,800,968	-	-	3,056,273
Charges for Services	322,056	272	-	540	-	155,324	478,191
Interest and Investment Revenue	76,459	-	6,058	-	5,085	7,575	95,177
Other Revenues	143,306	-	-	50,000	-	26,124	219,430
Total Revenues	20,461,812	875,116	4,231,753	1,851,508	5,085	1,790,418	29,215,691
EXPENDITURES							
Current							
General Government	5,235,863	420,731	-	-	-	-	5,656,594
Judicial	616,799	-	-	-	-	-	616,799
Public Safety	5,974,553	152,880	-	-	-	-	6,127,432
Physical Environment	686,079	113,477	-	-	-	-	799,557
Transportation	6,347	2,659,473	-	-	-	64,516	2,730,336
Health and Human Services	516,779	-	-	-	-	-	516,779
Economic Environment	1,101,555	-	-	-	-	186,474	1,288,030
Culture and Recreation	561,325	2,120	-	-	-	-	563,446
Debt Service - Principal	-	-	-	-	-	1,161,029	1,161,029
Debt Service - Interest	546	-	-	-	-	438,417	438,963
Capital Outlay	71,818	373,438	-	2,966,097	-	-	3,411,354
Total Expenditures	14,771,666	3,722,120	-	2,966,097	-	1,850,437	23,310,319
Excess/(deficiency) of Revenue over Expenditures	5,690,146	(2,847,004)	4,231,753	(1,114,589)	5,085	(60,019)	5,905,372
OTHER FINANCING SOURCES/(USES)							
Miscellaneous Revenue	30,261	42,640	-	-	-	-	72,901
Transfers In	488,613	2,942,428	118,659	3,085,468	-	1,299,466	7,934,634
Transfers Out	(2,985,373)	-	(4,337,199)	(1,059,947)	-	(1,067,072)	(9,449,591)
Total Other Financing Sources/Uses	(2,466,498)	2,985,068	(4,218,540)	2,025,520	-	232,394	(1,442,056)
Net Change in Fund Balance	3,223,648	138,064	13,212	910,932	5,085	172,376	4,463,316
Fund Balances - Beginning	18,007,368	132,837	2,567,493	10,404,073	-	2,158,440	33,270,211
Fund Balances - Ending	\$ 21,231,016	\$ 270,901	\$ 2,580,705	\$ 11,315,005	\$ 5,085	\$ 2,330,816	\$ 37,733,527

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, 2021

Net change in fund balances - Total governmental funds	\$ 4,463,316
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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	\$ 3,411,354	
Less current year depreciation	(2,453,820)	
		957,534

Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenues in the funds.	74,562
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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	705,013
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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.	1,161,029
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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.	(485,868)
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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.	2,177,337
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Change in Net Position of Governmental Activities	\$ 9,052,923
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CITY OF BAINBRIDGE ISLAND, WASHINGTON
Statement of Net Position
Proprietary Funds
As of December 31, 2021

	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	\$ 6,900,872	\$ 5,323,436	\$ 4,814,324	\$ 134,126	\$ 17,172,758	\$ 2,598,516
Receivables - Net	9,460	111,861	36,596	-	157,917	-
Due From Other Governments	-	-	30,504	-	30,504	-
Inventories	43,793	2,675	12,990	-	59,459	-
Subtotal - Current Assets	6,954,126	5,437,971	4,894,415	134,126	17,420,639	2,598,516
Long-Term Assets						
Restricted Cash - Debt Service	-	453,560	-	-	453,560	-
Restricted Cash - Customer Deposits	-	288,321	-	45,758	334,079	-
Special Assessments Receivable	-	524,453	-	-	524,453	-
Net Pension Asset	430,957	731,422	526,483	1,351,335	3,040,197	-
Depreciable Capital Assets (Net)	12,983,626	18,519,921	10,567,603	-	42,071,150	2,410,896
Land	637,436	834,874	324,555	-	1,796,865	-
Construction in Progress	622,081	1,334,649	197,153	-	2,153,883	2,374
Subtotal - Long-Term Assets	14,674,100	22,687,200	11,615,794	1,397,093	50,374,188	2,413,270
Total Assets	21,628,226	28,125,172	16,510,209	1,531,219	67,794,826	5,011,786
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows on Pensions	50,386	80,606	63,305	161,559	355,856	-
LIABILITIES						
Current Liabilities						
Accounts Payable	214,383	259,869	41,690	24,483	540,426	-
Accrued Expenses	29,942	72,299	41,597	100,814	244,651	-
Unearned Revenue	-	-	-	219,021	219,021	-
Current Portion of Compensated Absence:	110,139	69,563	47,813	89,308	316,822	-
Current Portion of Long-Term Debt	-	1,225,185	50,703	-	1,275,888	-
Subtotal - Current Liabilities	354,464	1,626,916	181,803	433,626	2,596,808	-
Long-Term Liabilities						
Customer Deposits	-	288,321	-	45,758	334,079	-
Compensated Absences	58,940	37,485	26,238	47,305	169,969	-
Net Pension Liability	44,127	67,647	52,788	141,964	306,526	-
Bonds, Loans, and Other Debt	-	6,507,003	142,564	-	6,649,567	-
Subtotal - Long-Term Liabilities	103,067	6,900,457	221,590	235,027	7,460,141	-
Total Liabilities	457,531	8,527,373	403,393	668,653	10,056,950	-
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows Gain on Refunding	-	97,925	-	-	97,925	-
Deferred Inflows on Pensions	451,310	759,874	551,358	1,418,441	3,180,983	-
Total Deferred Inflows of Resources	451,310	857,799	551,358	1,418,441	3,278,908	-
NET POSITION						
Net investment in Capital Assets	14,048,661	12,793,845	10,882,655	-	37,725,161	2,413,270
Restricted for:						
Net Pension Asset	430,957	731,422	526,483	1,351,335	3,040,197	-
Debt Service	-	453,560	-	-	453,560	-
Unrestricted	6,290,153	4,841,779	4,209,626	(1,745,651)	13,595,906	2,598,516
Total Net Position	\$ 20,769,771	\$ 18,820,605	\$ 15,618,764	\$ (394,316)	\$ 54,814,824	\$ 5,011,786

CITY OF BAINBRIDGE ISLAND, WASHINGTON
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the year ended December 31, 2021

	Business-Type Activities - Enterprise Funds					Governmental Activities
			Storm and Surface Water Management	Building and Development Services	Totals	Internal Services Fund
	Water	Sewer				
OPERATING REVENUES						
Charges for Services	\$ 1,354,436	\$ 4,120,550	\$ 2,741,687	\$ 1,336,280	\$ 9,552,954	\$ 450,000
Operating Grants	-	-	103,114	-	103,114	-
Total Operating Revenues	1,354,436	4,120,550	2,844,801	1,336,280	9,656,068	450,000
OPERATING EXPENSES						
Personal Services	525,310	936,455	719,491	1,869,734	4,050,989	-
Contractual Services	178,740	337,584	208,285	275,844	1,000,453	-
Utilities	141,193	320,429	24,671	1,243	487,535	-
Repairs and Maintenance	10,713	236,132	183,628	16	430,488	-
Miscellaneous Expense	58,165	62,521	140,623	9,477	270,787	-
Other Supplies and Expenses	223,139	760,420	298,272	11,847	1,293,678	-
Insurance Claims and Expenses	21,324	60,419	25,635	95,452	202,831	-
Depreciation	313,143	975,197	210,299	-	1,498,640	426,350
Total Operating Expenses	1,471,726	3,689,157	1,810,904	2,263,614	9,235,400	426,350
Operating Income (Loss)	(117,289)	431,393	1,033,898	(927,334)	420,668	23,650
NON-OPERATING REVENUES (EXPENSES)						
Interest & Investment Revenue	18,038	61,595	11,108	-	90,741	6,408
Miscellaneous Revenue	13,160	172	1,790	-	15,122	-
Miscellaneous Expense	16	-	677	-	693	-
Interest Expense	-	(174,907)	(1,072)	-	(175,979)	-
Settlement Expense	-	(74,364)	-	-	(74,364)	-
Total Non-Operating Revenues (Expenses)	31,213	(187,504)	12,503	-	(143,788)	6,408
Net income (loss) before contributions and transfers	(86,076)	243,889	1,046,401	(927,334)	276,880	30,058
Capital Contributions	175,954	287,432	-	-	463,386	674,956
Transfers In	8,750	-	50,000	1,456,207	1,514,957	-
Change in Net Position	98,628	531,321	1,096,401	528,873	2,255,223	705,013
Net Position - Beginning	20,671,142	18,289,285	14,522,362	(923,189)	52,559,601	4,306,773
Total Net Position - Ending	\$ 20,769,771	\$ 18,820,605	\$ 15,618,764	\$ (394,316)	\$ 54,814,824	\$ 5,011,786

CITY OF BAINBRIDGE ISLAND, WASHINGTON

Statement of Cash Flows

Proprietary Funds

For the year ended December 31, 2021

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	\$ 1,392,158	\$ 3,901,689	\$ 2,749,689	\$ 1,345,367	\$ 9,388,903	\$ 450,000
Operating Grants	-	-	72,610	-	72,610	-
Payments to Suppliers	(490,869)	(1,384,162)	(785,151)	(390,161)	(3,050,344)	-
Payments to Employees	(773,745)	(1,261,035)	(938,611)	(2,428,469)	(5,401,860)	-
Net Cash Provided (Used) by Operating Activities	127,545	1,256,492	1,098,537	(1,473,263)	1,009,310	450,000
Cash Flows from Non-Capital Financing Activities						
Transfers from (to) Other Funds	8,750	-	-	1,404,976	1,413,726	-
Net Cash Provided (Used) by Non-Capital Financing Activities	8,750	-	-	1,404,976	1,413,726	-
Cash Flows from Capital and Related Financing Activities						
Transfers from (to) Other Funds	-	(403,087)	50,000	(3,347)	(356,434)	-
Proceeds from Sale of Capital Assets	-	-	1,790	-	1,790	-
Capital Contributions	175,954	287,432	-	-	463,386	-
Special Assessment Receipts	-	288,321	-	45,758	334,079	-
Purchase/Acquisition of Capital Assets	(711,759)	(867,103)	(109,016)	-	(1,687,879)	(257,616)
Proceeds from Long-Term Debt	-	-	-	-	-	-
Principal Paid on Capital Debt	-	(1,225,185)	(50,703)	-	(1,275,888)	-
Interest Paid on Capital Debt	-	(178,674)	(1,220)	-	(179,894)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(535,805)	(2,098,296)	(109,149)	42,411	(2,700,839)	(257,616)
Cash Flows from Investing Activities						
Interest Income	18,038	15,290	11,108	-	44,436	6,408
Net Cash Provided (Used) by Investing Activities	18,038	15,290	11,108	-	44,436	6,408
Net Increase (Decrease) in Cash and Cash Equivalents	(381,473)	(826,514)	1,000,496	(25,876)	(233,366)	198,792
Cash and Cash Equivalents, January 1	7,282,345	6,891,831	3,813,828	205,760	18,193,764	2,399,724
Cash and Cash Equivalents, December 31	\$ 6,900,872	\$ 6,065,316	\$ 4,814,324	\$ 179,884	\$ 17,960,397	\$ 2,598,516

CITY OF BAINBRIDGE ISLAND, WASHINGTON

Statement of Cash Flows

Proprietary Funds

For the year ended December 31, 2021

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)	\$ (117,289)	\$ 431,393	\$ 1,033,898	\$ (927,334)	\$ 420,668	\$ 23,650
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities						
Depreciation	313,143	975,197	210,299	-	1,498,639	426,350
(Increase) Decrease in Accounts Receivable	(2,397)	(11,312)	9,705	-	(4,004)	-
(Increase) Decrease in Inventory	8,544	39	337	-	8,920	-
(Increase) Decrease in Due from Other Governments	-	-	30,504	-	30,504	-
(Increase) Decrease in Net Pension Asset	(430,957)	(731,422)	(526,483)	(1,351,335)	(3,040,197)	-
(Increase) Decrease in Deferred Charge on Pensions	6,882	11,681	8,407	21,580	48,550	-
Increase (Decrease) in Accounts Payable	107,412	120,210	26,630	2,508	256,760	-
Increase (Decrease) in Compensated Absences	(3,598)	(5,980)	(4,545)	(11,566)	(25,689)	-
Increase (Decrease) in Other Current Payables	(4,633)	25,648	1,359	(11,164)	11,210	-
Increase (Decrease) in Unearned Revenue	-	-	-	26,679	26,679	-
Increase (Decrease) in Net Pension Liability	(145,171)	(230,395)	(174,877)	(463,133)	(1,013,576)	-
Increase (Decrease) in Deferred Inflow on Pensions	395,610	671,433	483,302	1,240,502	2,790,847	-
Net Cash Provided (Used) by Operating Activities	\$ 127,545	\$ 1,256,492	\$ 1,098,536	\$ (1,473,263)	\$ 1,009,310	\$ 450,000

Noncash Investing, Capital, and Financing Activities						
Equipment Capital Contributions from Governmental Funds to Internal Service Fund	-	-	-	-	-	445,256
Equipment Capital Contributions from Enterprise Funds to Internal Service Fund	(51,181)	(51,384)	(127,134)	-	(229,699)	229,699
Issuance of Refunding Bonds		3,040,000			3,040,000	
Bonds refunded, including cost of issue		(3,040,000)			(3,040,000)	

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, 2021

ASSETS	Custodial Funds
Cash and Cash Equivalents	<u>\$ 2,387</u>
Total Assets	<u><u>\$ 2,387</u></u>
LIABILITIES	
Due to State and Local Governments	<u>\$ 2,387</u>
Total Liabilities	<u><u>\$ 2,387</u></u>
NET POSITION	<u><u>\$ -</u></u>

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

CITY OF BAINBRIDGE ISLAND, WASHINGTON
Statement of Changes in Net Position
Fiduciary Fund
For the Year Ended December 31, 2021

	Custodial Fund
ADDITIONS	
Court Fines and Forfeitures	\$ 26,107
Other Deposits	13,350
Total Additions	<u>\$ 39,456</u>
DEDUCTIONS	
Payment of Court Fines and Forfeitures to State Government	\$ 26,107
Other Payments to State and Local Governments	13,350
Total Deductions	<u>\$ 39,456</u>
Net Increase (Decrease) in Net Position	\$ -
Net Position - Beginning	<u>-</u>
Net Position - Ending	<u><u>\$ -</u></u>

CITY OF BAINBRIDGE ISLAND, WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2021

NOTE 1 – 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, as the city of Winslow. Following annexation of the remainder of the island on February 28, 1991, and a vote to change the City's name, the entire island became the City of Bainbridge Island. The City 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 from the island's three wards plus one at-large position; 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 lies within the 23rd State Legislative District and the 6th U.S. Congressional District.

The City is a general-purpose government and provides the following major types of services: general executive and administrative services, police, judicial, water supply/treatment/distribution, sewage collection and treatment, storm water (drainage) collection, street maintenance and construction, planning and zoning, permits and inspections, some parks, and boat docks. 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 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, as well as fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major governmental and enterprise funds are reported in separate columns in the fund financial statements.

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

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied and legally due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's primary ongoing activity. The principal operating revenues of the City's proprietary funds are user fees for services, connection charges paid by new users, and permit fees paid for processing regulatory permits and approvals. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, it is City policy to consider revenues available if they are collected within 60 days of the end of the current fiscal period. Property taxes, sales taxes, business and occupation taxes, utility taxes, excise taxes, licenses and interest associated with the current fiscal period are all considered susceptible to accrual and thus, recognized in the current fiscal period. Expenditure-driven grants are recognized as revenue, within the 60-day window, when the qualifying expenditures have been incurred and all eligibility requirements have been met. Only that portion of special assessments due within the current fiscal period is considered susceptible to accrual. All other revenue items are considered measurable and available only when cash is received by the City.

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

The City reports the following major Governmental Funds:

General Fund

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

Street Fund

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

Real Estate Excise Tax Fund

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

Capital Construction Fund

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

American Rescue Plan Act (ARPA) Fund

This fund accounts for federal grant funds provided to the City under ARPA Coronavirus State and Local Fiscal Recovery Funds. A description of the broad categories of allowed expenditures is included in Note 16 – Subsequent Events.

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 most 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 reports 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 reports one Fiduciary Fund:

The fiduciary fund is a custodial fund. Within this fund are several sub-funds representing monies on which the City has no claim. Included are monies held in transit to Kitsap County, the State of Washington, or the federal government.

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

1. Scope of Budget

Biennial budgets are adopted for all operating funds on the modified accrual basis of accounting. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of those debt issues or projects.

Other budgets are adopted at the level of the fund, where expenditures may not exceed appropriations at the fund level and the budgets constitute the legal authority for expenditures at that level.

Most appropriations for general and special revenue funds lapse at year-end, except for certain appropriations for operating and capital outlays carried forward from year to year until fully expended or the purpose of the appropriation is accomplished or abandoned.

Encumbrance accounting is employed in governmental and proprietary funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year, at the City Council's discretion.

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.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

F. Assets, Liabilities and Fund Balance (or Net Position)

The City's significant assets, liabilities and fund balance (or net position) are described in the notes that follow.

1. Cash and Cash Equivalents

For purposes of the financial statements 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, 2021, the City was holding \$61,642,685 in cash and cash equivalents which included \$43,679,901 in the governmental funds, \$17,960,397 in the proprietary funds, and \$2,387 in the fiduciary funds.

It is the City's policy to invest temporary cash surpluses. At December 31, 2021, the City was holding \$60,729,208 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 2021, the City's levy for general governmental services was \$0.84 per \$1,000 on assessed valuation of \$9,562,650,167 for a total of \$8,036,961. 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 receivables are recognized together with the related revenue adjustments on the government-wide financial statements.

As of December 31, 2021 and 2020, the City had total taxes receivable of \$2,149,750 and \$1,876,911, 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, 2021 and 2020, the City had \$5,454 and \$7,188, 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 2021 is \$199,314 (\$156,302 considered uncollectible) compared to \$271,153 (\$215,486 considered uncollectible) for 2020. 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 \$482,553 and \$1,160,089 for fiscal years 2021 and 2020, 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.

For purposes of calculating restricted net position related to the net pension asset, the City includes only the net pension asset.

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 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 more than one year. These assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs not adding to an asset's value or materially extending its useful life 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.

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 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 three items in this category on the *statement of net position*. The first item is a deferred charge on debt refunding resulting from the difference in carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or the refunding debt. The second item is a deferred outflow related to pensions. This amount is calculated in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The deferred outflow 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. The third item is a deferred outflow related to other post-employment benefits payable (OPEB). This amount is calculated in accordance with GASB Statement No. 75, Accounting and Financial Reporting for Post-employment Benefits other than Pensions. The deferred outflow related to OPEB will be recognized as either OPEB expense, or a reduction in the OPEB liability in future years. Details on the composition of this amount are further disclosed in Note 14 – Defined Benefit Other Post-Employment Benefit (OPEB) 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 is capped at a maximum of 320 hours at year-end and is payable upon termination, resignation, retirement, or death. Compensatory time off may be accumulated up to a maximum of 120 hours 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 $\frac{1}{2}$ the employee's current rate of pay. In addition, law enforcement officers, upon retirement, are paid $\frac{1}{4}$ 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, 2021 and 2020, is as follows:

	2021	2020
Vacation	\$ 901,612	\$ 955,583
Compensating Time	165,220	156,823
Standby Time	38,235	47,221
Floating Holidays	106,321	130,038
Total	\$ 1,211,388	\$ 1,289,665

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 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 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.

The City has two items in this category on the *statement of net position*. This first item is an aggregate of pension amounts 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 6 – Pension Plans. The second item is a deferred inflow from a gain on a bond refunding.

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 general obligation bond fund
- Other taxes and fees in the general fund and the street fund

- Court fines in the general fund

13. Fund Balance

Categories of Fund Balance

Governmental funds use a fund balance presentation. Fund balance is categorized as non-spendable, restricted, committed, assigned or unassigned. The use of a 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, 2021, were as follows:

	General Fund	Street Fund	Real Estate Excise Tax Fund	Capital Projects Fund	ARPA Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:							
Inventory	\$ 12,258	\$ 140,971	\$ -	\$ -	\$ -	\$ -	\$ 153,230
Long-term Receivables	59,171	-	-	-	-	-	59,171
Total Nonspendable	\$ 71,429	\$ 140,971	\$ -	\$ -	\$ -	\$ -	\$ 212,401
Restricted:							
Police Investigations	\$ 45,630	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,630
Police Marine	35,000	-	-	-	-	-	35,000
PEG Capital	118,047	-	-	-	-	-	118,047
Real Estate Excise Tax	-	-	2,580,705	845,283	-	-	3,425,988
Hotel/Motel Tax	-	-	-	-	-	580,741	580,741
Transportation Benefit Tax	-	29,218	-	-	-	1,377,792	1,407,010
Transportation Impact Fees	-	-	-	-	-	87,832	87,832
LID Collections	-	-	-	-	-	169,062	169,062
Total Restricted	\$ 198,677	\$ 29,218	\$ 2,580,705	\$ 845,283	\$ -	\$ 2,215,427	\$ 5,869,310
Committed:							

Public Art	\$ 276,778	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 276,778
Floor Area Ratio - Public Amen.	-	-	-	-	-	16,944	16,944
Floor Area Ratio - Agriculture	-	-	-	-	-	90,750	90,750
Tree Preservation	-	-	-	-	-	1,033	1,033
Total Committed	\$ 276,778	\$ -	\$ -	\$ -	\$ -	\$ 108,728	\$ 385,506
Assigned:							
General Fund	\$ 29,062	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,062
Street Fund	-	100,711	-	-	-	-	100,711
Affordable Housing	452,043	-	-	-	-	-	452,043
ARPA Funds	-	-	-	-	5,085	-	5,085
GO Bond Fund	-	-	-	-	-	6,661	6,661
Construction Fund	-	-	-	10,469,722	-	-	10,469,722
Total Assigned	\$ 481,104	\$ 100,711	\$ -	\$ 10,469,722	\$ 5,085	\$ 6,661	\$ 11,063,283
Unassigned:							
General Fund	\$20,203,027	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,203,027
Total Unassigned	\$20,203,027	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,203,027
Total Fund Balance	\$21,231,016	\$ 270,901	\$2,580,705	\$ 11,315,005	\$ 5,085	\$ 2,330,816	\$ 37,733,527

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, 2021. 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, 2021 and 2020, the City-Council-specified goal was \$5,115,453 and \$4,879,345, respectively. Unassigned general fund balance at December 31, 2021 and 2020, was \$20,203,027 and \$17,124,706, or \$15,087,574 and \$12,245,361 after reserves.

G. Deficit Net Position

As a result of the implementation GASB Statements No. 68 and 71 related to pensions the building and development services fund had a deficit net position of \$(394,316) at December 31, 2021. 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, certificate of Deposits with qualified Washington State financial institutions, and Washington State and local government investment pools. At year-end 2021, 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. 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, local governmental entities where the County Treasurer serves as ex-officio treasurer, and 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, 2021, the City held the following investments (at amortized cost) and cash deposits:

Short-Term Investment held in the Washington State Treasurer's Investment Pool	\$ 13,917,813
Short-Term Investment held in the Kitsap County Treasurer's Investment Pool	46,811,395
Total Investments	\$ 60,729,208
Cash on hand and on deposit at Umpqua Bank	913,477
Total cash and cash equivalents as reported on the financial statements	\$ 61,642,685

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 2021 levy rates were \$.36 and \$.76, 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 1%, the City may still increase the levy up to the 1% 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, 2021, was as follows:

Governmental Activities	Beginning Balance 01/01/2021	Increases	Decreases	Ending Balance 12/31/2021
Capital Assets not depreciated:				
Land	\$ 63,470,572	\$ 771,935	\$ (5,851,069)	\$ 58,391,438
Construction In Progress	13,764,172	2,374	(1,941,907)	11,824,639
Development Rights (Intangible)	880,000	-	-	880,000
Total Capital Assets not depreciated	\$ 78,114,744	\$ 1,182,986	\$ (8,201,653)	\$ 71,096,077
Capital Assets, Depreciable:				
Buildings	\$ 16,467,160	\$ 57,224	\$ -	\$ 16,524,384
Machinery and Equipment	9,144,770	930,198	(198,994)	9,875,974
Infrastructure	55,860,750	4,425,398	-	60,286,149
Total Capital Assets, depreciable	\$ 81,472,680	\$ 5,412,820	\$ (198,994)	\$ 86,686,507
Less Accumulated Depreciation for:				
Buildings	\$ (8,867,867)	\$ (434,420)	\$ -	\$ (9,302,287)
Machinery and Equipment	(7,110,343)	(459,844)	198,994	(7,371,193)

Infrastructure	(28,696,365)	(1,985,907)	-	(30,682,272)
Total Accumulated Depreciation	\$ (44,674,575)	\$(2,880,170)	\$ 198,994	\$ (47,355,751)
Total Capital Assets, depreciable, net	\$ 36,798,105	\$ 2,532,650	\$ -	\$ 39,330,755
Total Governmental Activities Capital Assets, net	\$ 114,912,850	\$ 3,715,636	\$ (8,201,653)	\$ 110,426,832
Business-Type Activities	Beginning Balance 01/01/2021	Increases	Decreases	Ending Balance 12/31/2021
Capital Assets not depreciated:				
Land	\$ 1,796,865	\$ -	\$ -	\$ 1,796,865
Construction In Progress	1,614,802	649,028	(109,947)	2,153,883
Total Capital Assets not depreciated	\$ 3,411,667	\$ 649,028	\$ (109,947)	\$ 3,950,749
Capital Assets, depreciable:				
Buildings	\$ 54,728	\$ -	\$ -	\$ 54,728
Computer Software	32,365	-	-	32,365
Machinery and Equipment	431,430	-	(11,208)	420,222
Infrastructure	69,367,979	933,224	-	70,301,203
Total Capital Assets, depreciable	\$ 69,886,503	\$ 933,224	\$ (11,208)	\$ 70,808,518
Less accumulated depreciation for:				
Buildings	\$ (17,577)	\$ (1,150)	\$ -	\$ (18,727)
Computer Software	(32,365)	-	-	(32,365)
Machinery and Equipment	(416,466)	(1,642)	-	(418,108)
Infrastructure	(26,783,530)	(1,495,848)	11,208	(28,268,170)
Total Accumulated Depreciation	\$ (27,249,938)	\$(1,498,640)	\$ 11,208	\$ (28,737,370)
Total Capital Assets, depreciable, net	\$ 42,636,565	\$ (565,416)	\$ -	\$ 42,071,149
Total Business-Type Activities Capital Assets, net	\$ 46,048,232	\$ 83,612	\$ (109,947)	\$ 46,021,897

2021 depreciation expense was charged to the functions of the city as follows:

Governmental Activities	2021	2020
General Government	\$ 332,884	\$ 329,069
Judicial	-	2,218
Public Safety	207,006	193,987
Physical Environment	91,773	68,813
Transportation	1,738,443	1,545,896
Health and Human Services	8,673	8,673
Culture and Recreation	501,391	501,391
Total Depreciation - Governmental Activities	\$ 2,880,170	\$ 2,650,047
Business-Type Activities	2021	2020

Water Utility	\$ 313,143	\$ 300,371
Sewer Utility	975,197	975,639
Storm and Surface Water Management Utility	210,299	211,271
Total Depreciation - Business-Type Activities	\$ 1,498,640	\$ 1,487,281

B. Construction Commitments

At December 31, 2021, the City had no material outstanding contractual construction commitments. Most of the balance in governmental construction in progress is related to the City's recent purchase of the Harrison Medical Building that will be converted to a Police/Court facility. See also Note 16.A. – Subsequent Events.

NOTE 6 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2021:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (695,326)
Pension assets	\$ 10,923,413
Deferred outflows of resources	\$ 1,149,813
Deferred inflows of resources	\$ (9,391,705)
Pension expense/expenditures	\$ (2,277,522)

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 annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

The DRS ACFR 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 five 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.

PERS Plan 1 Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. 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 2021 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January – June 2021:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	0.00%
Administrative Fee	0.18%	0.00%
Total	12.97%	6.00%
July – December 2021:		
PERS Plan 1	10.07%	6.00%
Administrative Fee	0.18%	0.00%
Total	10.25%	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 two percent of the member's AFC times the member's years of service for Plan 2 and one percent 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 five 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 five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service 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), capped at three percent 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 five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 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 six 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.

Pers Plan 2/3 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 percent. 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 2021 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January – June 2021:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	0.00%
Administrative Fee	0.18%	0.00%
Employee PERS Plan 3		Varies
Total	12.97%	7.90%
July – December 2021:		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	0.00%
Administrative Fee	0.18%	0.00%
Employee PERS Plan 3		Varies
Total	10.25%	6.36%

* For employees participating in IBM, the contribution rate was 15.90%.

The City's actual PERS plan contributions were \$380,654 to PERS Plan 1 and \$604,853 to PERS Plan 2/3 for the year ended December 31, 2021.

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 ten years of service. Members are eligible for retirement with five 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 five years of eligible service. The plan was closed to new entrants on September 30, 1977.

LEOFF Plan 1 Contributions

Starting on July 1, 2000, *LEOFF Plan 1* employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2021. Employers only paid the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability, and death benefits. Retirement benefits are determined as two percent 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 age 53 with at least five 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 three percent

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 three percent 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 five years of eligible service.

LEOFF Plan 2 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 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as a percentage of covered payroll) was 3.41% in 2021.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
January – June 2021		
State and local governments	5.15%	8.59%
Administrative Fee	0.18%	0.00%
Total	5.33%	8.59%
Ports and Universities	8.59%	8.59%
Administrative Fee	0.18%	0.00%
Total	8.77%	8.59%
July – December 2021		
State and local governments	5.12%	8.53%
Administrative Fee	0.18%	0.00%
Total	5.30%	8.53%
Ports and Universities	8.53%	8.53%
Administrative Fee	0.18%	0.00%
Total	8.71%	8.53%

The City's actual contributions to the plan were \$126,687 for the year ended December 31, 2021.

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, 2021, the State contributed \$78,170,320 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount was \$82,946.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2013-2018 Experience Study and the 2019 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan

liabilities were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 2.75% total economic inflation; 3.50% salary inflation
- Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity
- Investment rate of return: 7.4%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. 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 no changes in assumptions since the last valuation. There were changes in methods since the last valuation.

- For purposes of the June 30, 2020, Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4%.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's 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 7.4% 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 7.4% 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 (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

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, 2021, 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%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	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 7.4%, 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 (6.4%), or one percentage point higher (8.4%), than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 1,184,520	\$ 695,322	\$ 268,691
PERS 2/3	\$ (1,989,545)	\$ (6,983,785)	\$ (11,096,544)
LEOFF 1	\$ (173,933)	\$ (193,202)	\$ (209,873)
LEOFF 2	\$ (2,362,500)	\$ (3,746,427)	\$ (4,879,588)

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, 2021, the City reported a total pension liability of \$695,322 and a total pension asset of \$10,923,414 for its proportionate share of the net pension liabilities and assets as follows:

	Liability (or Asset)
PERS 1	\$ 695,322
PERS 2/3	\$ (6,983,785)
LEOFF 1	\$ (193,202)
LEOFF 2	\$ (3,746,427)

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
City's proportionate share	\$ (193,202)	\$ (3,746,427)
State's proportionate share of the net pension asset associated with the City	(1,306,811)	(2,416,854)
Total	\$ (1,500,013)	\$ (6,163,281)

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

	Proportionate Share 6/30/20	Proportionate Share 6/30/21	Change in Proportion
PERS 1	0.058554%	0.056936%	-0.0016%
PERS 2/3	0.073259%	0.070107%	-0.0032%
LEOFF 1	0.005504%	0.005640%	0.0001%
LEOFF 2	0.068320%	0.064500%	0.0038%

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 2021. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2020, 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 2021, the State of Washington contributed 39% of LEOFF 2 employer contributions pursuant to RCW 41.26.725, and all other employers contributed the remaining 61% of employer contributions.

Pension Expense

For the year ended December 31, 2021, the City recognized pension expense as follows:

	Pension Expense
PERS 1	\$ (187,782)
PERS 2/3	(1,596,875)
LEOFF 1	(31,310)
LEOFF 2	(461,553)
Total	\$ (2,277,522)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(771,574)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	164,011	-
Total	\$ 164,011	\$ (771,574)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 339,192	\$ (85,614)
Net difference between projected and actual investment earnings on pension plan investments	-	(5,836,806)
Changes of assumptions	10,206	(495,964)
Changes in proportion and differences between contributions and proportionate share of contributions	30,313	(109,300)
Contributions subsequent to the measurement date	267,300	-
Total	\$ 647,011	\$ (6,527,685)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(59,035)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	-	-
Total	\$ -	\$ (59,035)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 169,924	\$ (19,800)
Net difference between projected and actual investment earnings on pension plan investments	-	(1,786,323)
Changes of assumptions	1,619	(178,180)
Changes in proportion and differences between contributions and proportionate share of contributions	102,469	(49,105)
Contributions subsequent to the measurement date	64,783	-
Total	\$ 338,796	\$ (2,033,409)

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, 2022. 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
2022	\$ (204,390)
2023	(187,296)
2024	(177,096)

2025	(202,793)
2026	-
Thereafter	-
Total	\$ (771,574)

Year ended December 31:	PERS 2/3
2022	\$ (1,609,300)
2023	(1,504,432)
2024	(1,437,063)
2025	(1,556,609)
2026	(36,270)
Thereafter	(4,299)
Total	\$ (6,147,974)

Year ended December 31:	LEOFF 1
2022	\$ (15,682)
2023	(14,344)
2024	(13,535)
2025	(15,474)
2026	-
Thereafter	-
Total	\$ (59,035)

Year ended December 31:	LEOFF 2
2022	\$ (472,567)
2023	(440,076)
2024	(415,528)
2025	(468,393)
2026	(2,560)
Thereafter	39,729
Total	\$ (1,759,396)

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 166 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 and omissions, stop gap, employment practices, prior wrongful acts, and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million above the self-insured layer through reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000 for all perils other than flood and earthquake and insured above that to \$400 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.

WCIA 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, 2021, 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. Bonded indebtedness has also been entered into for advance refunding of certain general obligation bonds. General obligation bonds have been issued for both governmental and business-type activities and are being repaid from the applicable resources.

In September 2021, the City issued \$3,040,000 in LTGO refunding bonds to refund all the City's outstanding 2011 LTGO bonds. The original bonds were issued to fund certain wastewater treatment plant upgrades and outstanding bonds at September 2021 had interest at 4%. The refunding bonds bear interest at 1.14% and are payable through 2030 in annual debt service payments ranging from \$297,316 to \$316,318. The bonds are payable from sewer fund revenues and were issued with a Moody's rating of Aaa. The aggregate difference in debt service between the refunding and refunded debt was \$371,769. The economic gain (net present value) on the transaction was \$353,825.

The City presently has one outstanding local improvement district (LID) special assessment bond, and two of its Washington State Public Works Trust Fund (PWTF) loans are designated as revenue debt and another as LID debt. All four of these debt instruments pledge specific revenue for the repayment of the related debt, although there are no pledged debt coverage requirements. In addition, these debt instruments have an additional general pledge of City revenues in the event insufficient resources are available to fully repay the debt. See Note 1.F.2. — Receivables, for information on delinquent LID special assessment receivables.

Long-Term debt reported on the statements of net position at December 31, 2021, is comprised of the following:

Type of Debt or Long-Term Liability	Governmental Activities	Business-Type Activities
Unlimited Tax General Obligation Bonds	\$ 1,195,000	\$ -
Limited Tax General Obligation Bonds	8,965,000	2,750,000
Limited Tax General Obligation Long-Term Debt	165,653	1,242,059

Revenue Obligation Long-Term Debt	-	3,040,897
Local Improvement District Obligation Long-Term Debt	74,725	892,500
Long-Term Debt analyzed in this Note below	10,400,378	7,925,456
Other Components of Long-Term Liabilities:		
Other Post-Employment Benefits - See Note No. 14	1,329,594	-
Net Pension Liability - See Note No. 6	388,800	306,526
Compensated Absences - See Note No. 1.F.9.	724,597	486,791
Landfill Post-Closure Care Costs - See Note No. 9	339,739	-
Unamortized Bond Discounts and Premiums	1,062,252	-
Total Long-Term Liabilities reported on the Statement of Net Position	\$ 14,245,360	\$ 8,718,773

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%	\$ 1,195,000	\$ -
Sewer Plant Refunding/\$3,040,000/LTGO 2021	2.00 - 4.00%	-	2,750,000
Police-Court Facility & Refunding/\$9,990,000/LTGO 2019	3.00 - 5.00%	8,965,000	-
Total General Obligation Bonds		\$ 10,160,000	\$ 2,750,000

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
2022	\$ 1,145,000	\$ 380,900	\$ 290,000	\$ 31,350
2023	1,230,000	332,450	295,000	28,044
2024	620,000	280,450	295,000	24,681
2025	645,000	252,500	305,000	21,318
2026	660,000	223,750	305,000	17,841
2027-2031	2,285,000	759,200	1,260,000	36,081
2032-2036	2,135,000	412,200	-	-
2037-2041	1,440,000	87,300	-	-
Total	\$ 10,160,000	\$ 2,728,750	\$ 2,750,000	\$ 159,315

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

Purpose/Original Issue Amount	Interest Rates	Governmental Activities	Business-Type Activities
PWTF Loan - Emergency Street Repairs/\$449,632	3.00%	\$ 165,653	\$ -
PWTF Loan - Storm Drain Decant Facility Design/\$179,025	0.50%	-	28,636
PWTF Loan - Sewage Treatment Plant Design/\$389,215	0.50%	-	63,259
PWTF Loan - Storm Drain Decant Facility Constr./\$782,000	0.50%	-	164,630
PWTF Loan - Sewage Treatment Plant Construction Loan #1/\$3,618,000	0.50%	-	842,495
PWTF Loan - Eagle Harbor Sewer Beach Mains Design/\$383,542	0.50%	-	143,039
Total Other General Obligation Debt		\$ 165,653	\$ 1,242,059

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
2022	\$ 23,665	\$ 4,970	\$ 302,848	\$ 6,210
2023	23,665	4,260	302,848	4,696
2024	23,665	3,550	302,848	3,182
2025	23,665	2,840	272,215	1,668
2026	23,665	2,130	20,434	307
2027-2031	47,330	2,130	40,868	307
Total	\$ 165,654	\$ 19,878	\$ 1,242,061	\$ 16,369

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 Construction Loan #2/\$3,564,500	0.50%	\$ -	\$ 1,000,041
PWTF Loan - Eagle Harbor Sewer Beach Mains Construction/\$4,167,089	0.50%	-	2,040,856
Total Revenue Obligation Debt		\$ -	\$ 3,040,897

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
2022	\$ -	\$ -	\$ 385,540	\$ 10,102
2023	-	-	385,540	8,638
2024	-	-	385,540	7,175
2025	-	-	385,540	5,711
2026	-	-	385,540	4,247
2027-2031	-	-	927,661	9,277
2032-2036			185,532	464
Total	\$ -	\$ -	\$ 3,040,894	\$ 45,613

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

Purpose/Original Issue Amount	Interest Rates	Governmental Activities	Business-Type Activities
PWTF Loan South Island Sewer Lines Construction/\$5,600,000	0.50%	\$ -	\$ 892,500
Local Improvement District No. 22 Bonds Street Construction/\$755,300	4.56%	74,725	-
Total LID Obligation Debt		\$ 74,725	\$ 892,500

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
2022	\$ 37,364	\$ 3,408	\$ 297,500	\$ 2,975
2023	37,364	1,704	297,500	1,488
2024	-	-	297,500	-
2025	-	-	-	-
Total	\$ 74,727	\$ 5,111	\$ 892,500	\$ 4,463

A. Changes in Long-Term Liabilities

During the year ending December 31, 2021, the following changes occurred in long-term liabilities:

	Beginning Balance Jan. 1, 2021	Additions	Reductions	Ending Balance Dec. 31, 2021	Due Within One Year
Governmental Activities:					
Unlimited Tax General Obligation Bonds	\$ 1,740,000	\$ -	\$ (545,000)	\$ 1,195,000	\$ 565,000
Limited Tax General Obligation Bonds	9,520,000	-	(555,000)	8,965,000	580,000
Local Improvement District Bonds	112,089	-	(37,364)	74,725	37,364
Unamortized Bond Discounts & Premiums	1,183,578	-	(121,326)	1,062,252	121,326
Total Bonds Payable	12,555,667	-	(1,258,690)	11,296,977	1,303,690
Loans from Other Gov'ts	189,318	-	(23,665)	165,653	23,665
Compensated Absences	777,184	867,118	(919,705)	724,597	470,580
Net Pension Liability	1,684,116	-	(1,295,316)	388,800	-
Total OPEB Liability	1,454,995	1,329,594	(1,454,995)	1,329,594	125,401
Landfill Post-Closure Liability	352,379	3,693	(16,333)	339,739	22,161
Total Governmental Activity long-term liabilities	\$ 17,013,659	\$ 2,200,405	\$ (4,968,704)	\$ 14,245,360	\$ 1,945,496
Business-Type Activities:					
Limited Tax General Obligation Bonds	\$ 2,950,000	\$ 3,040,000	\$ (3,240,000)	\$ 2,750,000	\$ 290,000
Loans from Other Gov'ts	6,161,343	-	(985,888)	5,175,455	985,888
Compensated Absences	512,482	423,609	(449,299)	486,791	316,822
Net Pension Liability	1,320,102	-	(1,013,576)	306,526	-
Unamortized Bond Discounts & Premiums	97,926	-	(97,925)	-	-
Total Business-Type Activity long-term liabilities	\$ 11,041,852	\$ 3,463,609	\$ (5,786,689)	\$ 8,718,773	\$ 1,690,635

Compensated absences and pension liabilities are expensed in all funds with labor costs: general, street, capital construction, water, sewer, storm and surface water management, and building and development services. Other post-employment benefits payable (OPEB) liabilities are expensed only in the general fund.

B. Leases

Operating Leases

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

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, 2021, 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 actions 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 most of the site as well as the related monitoring, maintenance, and potential future remediation expenses.

The landfill post-closure liability of \$339,739 at December 31, 2021, represents the estimated liability for all future post-closure costs as if those costs were performed in 2021. 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 2021 were \$16,333. This cost was net of an addition of \$3,693 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 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. 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 1.F.9. – Compensated Absences. However, sick, or injured employees can draw on accumulated sick leave in the future. As of December 31, 2021 and 2020, the value of total accumulated sick leave was \$1,783,972 and \$1,938,956, 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, 2021 and 2020, was \$20,464 and \$33,829, respectively.

The City participates in several 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 are 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 2021.

B. Interfund transfers

Interfund transfers for the year ended December 31, 2021, were as follows:

	Transfer from General Fund	Transfer from Real Estate Excise Tax (REET) Fund	Transfer from Trans. Benefit Fund	Transfer from Trans. Impact Fee Fund	Transfer from Capital Construction Fund	Total	Purpose of Transfer
Disbursed To:							
General Fund	\$ -	\$ 14,012	\$ -	\$ -	\$ 474,601	\$ 488,613	Return of Unused Subsidy
Street Fund	20,000	2,487,428	435,000	-	-	2,942,428	Operating Subsidy
REET Fund	21,000	-	-	-	97,659	118,659	Return of Unused Subsidy
Transp. Impact Fee Fund	-	-	-	-	357,072	357,072	Return of Unused Subsidy
GO Bond Fund	-	942,394	-	-	-	942,394	Debt Service Subsidy
Capital Constr. Fund	1,429,416	893,364	25,000	607,072	130,616	3,085,468	Construction Subsidy
Water Fund	8,750	-	-	-	-	8,750	Tax Offset
SSWM Fund	50,000	-	-	-	-	50,000	Construction Subsidy
B&DS Fund	1,456,207	-	-	-	-	1,456,207	Operating Subsidy
Total	\$ 2,985,373	\$ 4,337,199	\$ 460,000	\$ 607,072	\$ 1,059,947	\$ 9,449,591	

As discussed in Note 1.C. – Measurement Focus, Basis of Accounting, and Financial Statement Presentation the City pays internal economic rent, internal utility taxes, internal development permits and internal sewer, water and storm, and surface water utility fees for various City facilities. The City chooses to treat these activities as external transactions.

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

Although the amounts above appear in the individual fund financial statements, certain transactions and related balances were eliminated for presentation in the consolidated government-wide *Statement of Activities* and *Statement of Net Position*.

NOTE 12 – RECEIVABLE AND PAYABLE BALANCES

A. Receivables

Receivables (net of amounts determined to be uncollectible) at December 31, 2021, were as follows:

	Accounts	Taxes	Special Assessments	Due from Other Governments or Non-profits	Total
Governmental Activities:					
General Government	\$ 123,379	\$ 1,949,221	\$ -	\$ 111,682	\$ 2,184,282
Transportation	700	153,878	-	281,195	435,773
Culture & Recreation	-	577	-	-	577
Judicial	43,012	-	-	-	43,012
Economic Environment	-	46,074	-	-	46,074
Health and Human Service	-	-	-	59,171	59,171
Total Governmental Activities	\$ 167,091	\$ 2,149,750	\$ -	\$ 452,048	\$ 2,768,890
Business-Type Activities:					
Water	\$ 9,460	\$ -	\$ -	\$ -	\$ 9,460
Sewer	111,861	-	524,454	-	636,314
Storm & Surface Water	36,596	-	-	30,504	67,100
Total Business-Type Activities	\$ 157,917	\$ -	\$ 524,454	\$ 30,504	\$ 712,875

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, 2021, were as follows:

	Vendors	Salaries and Benefits	Total
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Governmental Activities:			
General Government	\$ 137,242	\$ 117,814	\$ 255,056
Public Safety	220,700	189,458	410,158
Transportation	440,473	202,333	642,806
Culture and Recreation	7,140	18,566	25,706
Judicial	22,801	19,574	42,375
Physical Environment	26,270	22,552	48,822
Economic Environment	72,597	36,459	109,056
Health and Human Service	5,335	9	5,344
Total Governmental Activities	\$ 932,559	\$ 606,766	\$ 1,539,325
Business-Type Activities:			
Water	\$ 214,383	\$ 29,942	\$ 244,325
Sewer	259,869	73,196	333,065
Storm & Surface Water	41,690	41,597	83,287
Bldg. & Development Services	24,483	100,814	125,297
Total Business-Type Activities	\$ 540,426	\$ 245,549	\$ 785,975

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 2,700 customers, primarily in the historic Winslow area. Its sewer utility provides wastewater collection in the South Island and Lynwood Center areas to roughly 250 customers, and collection and treatment in the historic Winslow area to roughly 2,200 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 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

The City has no termination benefits other than the accrued compensated absences described in Note 1.F.9. – Compensated Absences and Note 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 6 – Pension Plans, the City provides certain post-employment health care benefits via a single employer defined benefit healthcare plan.

LEOFF 1 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 1 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, 2021, the City's plan had one covered retiree 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 1 plan does not issue a publicly available financial report.

Funding Policy

Funding for LEOFF 1 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 and there are no assets accumulated in a qualifying trust. Expenditures for post-retirement health care benefits are recognized as retirees report claims. During the year, expenditures of \$22,404 were recognized for post-retirement health care.

Total OPEB Liability

The City has elected to calculate the total OPEB liability using the alternative measurement method permitted by GASB Statement No. 75 for employers with plans that have fewer than one hundred total plan members. The City's total OPEB liability of \$1,329,594 was measured as of June 30, 2021, and was determined using the entry age valuation method on that date.

Valuation Assumptions and Other Inputs

The total OPEB liability in the June 30, 2021, valuation was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified. Unless noted otherwise, assumptions and inputs are consistent with the 2020 LEOFF 1 OPEB Actuarial Valuation Report published by the Washington State Actuary's Office:

Discount Rate: 2.16%

Healthcare cost trend rates: The initial medical cost rate is approximately 5.3% and trends down to about 5% later in the 2020s. Long-term care is 4.5%. Medicare Part B premiums are approximately 5% but vary by year.

The discount rate is based on the Bond Buyer General Obligation 20-Bond Municipal Index.

Mortality rates were based on the RP-2000 Mortality Table for males with adjustments for mortality improvements based on the Mortality Improvement Scale BB Report.

Sensitivity of the Total OPEB Liability

Healthcare Cost Trend Rate

The following presents the total OPEB liability of the City of Bainbridge Island calculated using the current healthcare cost trend rate noted above, as well as what the OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease (4.3%)	Current Healthcare Cost Trend Rate (5.3%)	1% Increase (6.3%)
Total OPEB Liability	\$ 1,171,769	\$ 1,329,594	\$ 1,516,016

Discount Rate

The following presents the total OPEB liability of the City of Bainbridge Island calculated using the current discount rate noted above, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
Total OPEB Liability	\$ 1,529,826	\$ 1,329,594	\$ 1,164,531

Change in Total OPEB Liability

Balance at 6/30/2020	\$	1,454,995
Changes for the year:		
Interest Cost		31,698
Changes in Experience Data and Assumptions		(115,518)
Estimated Benefit Payments		(41,581)
Net changes		(125,401)
Balance at 6/30/2021	\$	1,329,594

Changes in expense data and assumptions reflect a change in the discount rate from 2.21% in 2020 to 2.16% in 2021.

Deferred outflows of resources of \$12,292 resulting from payments after the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2022.

NOTE 15 – PRIOR PERIOD ADJUSTMENT

During 2021 the City recorded the following prior period adjustment:

In the governmental activities portion of the entity-wide Statement of Activities the City recognized \$5,851,069 in land transferred in previous years to the Bainbridge Island Metropolitan Park and Recreation District that had not been removed from the City's capital assets.

NOTE 16 – SUBSEQUENT EVENTS

A. New Police/Court Facility Renovation Scheduled to Start in 2022

On January 31, 2020, the City purchased the former Harrison Medical building for \$8,975,000 primarily with proceeds from the 2019 LTGO bonds. The City plans to renovate the building for use as a combined police and municipal court facility. On April 12, 2022, the City Council approved contracts for construction and engineering services. Work is anticipated to start summer 2022.

B. Global Pandemic Easing and Additional Federal Pandemic Funding

Starting in March 2022, Governor authorized a phased reopening of businesses and governmental facilities. In addition, recent retail sales numbers and real estate activity have resulted in greater than budgeted increases in City sales tax and real estate excise tax (REET) revenue. Despite these increases, the recent surge in inflation has seen the City's REET revenue start to fall.

On March 11, 2021, President Joe Biden signed into the law the American Rescue Plan Act (ARPA). The City has been awarded \$7,061,886 in ARPA funds of which \$3,534,392 was received June 2021. None of this money has been spent yet. This City has been informed an additional \$3,530,943 is scheduled to be disbursed to the City in June 2022.

At present ARPA funds can be used to cover these broad categories:

- Responding to the COVID-19 pandemic

- Costs incurred due to the public health emergency
- Replacing lost, delayed, or decreased revenues due to COVID-19
- Addressing the negative economic impacts on local businesses and nonprofits
- Making necessary investments in water, sewer, and broadband infrastructure

C. Building and Development Services Fee Study

In 2019 the City contracted for a building and development fee study. The goal was to develop a fee structure that would recover 100% of building and development expenses. For 2021 the building and development services fund recovered only 59% with the shortage in revenue covered by the general fund. In 2021 these transfers totaled \$1,456,207. On March 22, 2022, the City Council adopted an updated fee structure scheduled to go into effect September 1, 2022.

D. State Loans Approved

The City has signed loan agreements, but not drawn any funds, for following four State loans.

- \$2,500,000 Public Works Trust Fund loan for the West Eagle Harbor Sewer Complex
- \$4,500,000 Public Works Trust Fund loan for the Winslow Water Tank Replacement
- \$6,831,302 Drinking Water State Revolving loan for the Winslow Water Tank Replacement
- \$792,079 Drinking Water State Revolving loan for the Ferncliff Avenue Water Main Extension

City of Bainbridge Island
Schedule of Changes in Total OPEB Liability and Related Ratios
City of Bainbridge Island Administered OPEB Plan
For the year ended June 30, 2021
Last 10 Fiscal Years *

	2021	2020	2019	2018
Total OPEB liability - beginning	\$ 1,454,995	\$ 1,236,856	\$ 1,212,886	\$ 1,251,132
Service cost	-	-	-	-
Interest	31,698	42,713	46,347	44,256
Changes in benefit terms	-	-	-	-
Differences between expected and actual experience	(115,518)	208,678	8,480	(52,368)
Changes of assumptions	-	-	-	-
Benefit payments	(41,581)	(33,252)	(30,857)	(30,134)
Other changes	-	-	-	-
Total OPEB liability - ending	<u>\$ 1,329,594</u>	<u>\$ 1,454,995</u>	<u>\$ 1,236,856</u>	<u>\$ 1,212,886</u>
Covered payroll	\$ -	\$ -	\$ -	\$ -
Total OPEB liability as a % of covered payroll	0.00%	0.00%	0.00%	0.00%

Notes to Schedule:

* Until a full 10-year trend is compiled, only information for those years available is presented.

There are no assets accumulated in a trust related to this OPEB plan that meet the criteria in paragraph 4 of GASB Statement No. 75.

There were no changes in assumptions during the measurement period.

Total population covered by this plan was reduced from 3 to 2 following the death of one of the participants in August 2018.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Pension Plans

City of Bainbridge Island
Schedule of Proportionate Share of Net Pension Liability
Public Employees Retirement System Plan 1 (PERS 1)
As of June 30, 2021
Last 10 Fiscal Years *

	2021	2020	2019	2018	2017	2016	2015	2014
The City's proportion of the net pension liability (asset)	0.056936%	0.058554%	0.060728%	0.061315%	0.059776%	0.060413%	0.060591%	0.057710%
The City's proportionate share of the net pension liability (asset)	\$ 695,322	\$ 2,067,272	\$ 2,335,207	\$ 2,738,349	\$ 2,836,418	\$ 3,244,463	\$ 3,169,473	\$ 2,907,168
Covered payroll	\$ 8,523,425	\$ 8,670,078	\$ 8,336,161	\$ 7,983,671	\$ 7,378,058	\$ 7,093,980	\$ 6,812,867	\$ 6,234,704
The City's proportionate share of the net pension liability as a percentage of payroll in PERS 1	8.16%	23.84%	28.01%	34.30%	38.44%	45.74%	46.52%	46.63%
Plan fiduciary net position as a percentage of the total pension liability	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%

* This schedule is intended to show information for the last 10 years however only eight 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, 2021
Last 10 Fiscal Years *

	2021	2020	2019	2018	2017	2016	2015	2014
<u>The City's proportion of the net pension liability (asset)</u>	0.070107%	0.073259%	0.075525%	0.075801%	0.074148%	0.074798%	0.075592%	0.071618%
<u>The City's proportionate share of the net pension liability (asset)</u>	\$ (6,983,785)	\$ 936,941	\$ 733,605	\$ 1,294,235	\$ 2,576,289	\$ 3,766,020	\$ 2,700,945	\$ 1,447,658
<u>Covered payroll</u>	\$ 8,385,298	\$ 8,540,618	\$ 8,209,384	\$ 7,861,509	\$ 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 payroll in PERS 2 and 3</u>	-83.29%	10.97%	8.94%	16.46%	35.48%	53.93%	40.27%	23.61%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%

* This schedule is intended to show information for the last 10 years however only eight 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 1 (LEOFF 1)
As of June 30, 2021
Last 10 Fiscal Years *

	2021	2020	2019	2018	2017	2016	2015	2014
<u>The City's proportion of the net pension liability (asset)</u>	0.005640%	0.005504%	0.005386%	0.005292%	0.005237%	0.005163%	0.005108%	0.005066%
<u>The City's proportionate share of the net pension liability (asset)</u>	\$ (193,202)	\$ (103,944)	\$ (106,460)	\$ (96,076)	\$ (79,457)	\$ (53,194)	\$ (61,563)	\$ (61,440)
<u>State's proportionate share of the net pension liability (asset) associated with the City</u>	\$ (1,306,811)	\$ (703,071)	\$ (720,095)	\$ (649,858)	\$ (537,444)	\$ (359,801)	\$ (416,411)	\$ (415,579)
<u>TOTAL</u>	\$ (1,500,013)	\$ (807,015)	\$ (826,555)	\$ (745,934)	\$ (616,901)	\$ (412,995)	\$ (477,974)	\$ (477,019)
<u>Covered payroll</u>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<u>The City's proportionate share of the net pension liability as a percentage of payroll in LEOFF 1</u>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	187.45%	146.88%	148.78%	144.42%	135.96%	123.74%	127.36%	126.91%

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

The City currently has no employees participating in LEOFF 1 and therefore has no 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, 2021
Last 10 Fiscal Years *

	2021	2020	2019	2018	2017	2016	2015	2014
The City's proportion of the net pension liability (asset)	0.064500%	0.068320%	0.067875%	0.071125%	0.064740%	0.065121%	0.063719%	0.062773%
The City's proportionate share of the net pension liability (asset)	\$ (3,746,427)	\$ (1,393,628)	\$ (1,572,455)	\$ (1,443,993)	\$ (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	\$ (2,416,854)	\$ (891,120)	\$ (1,029,748)	\$ (934,958)	\$ (582,763)	\$ (246,926)	\$ (433,023)	\$ (544,283)
TOTAL	<u>\$ (6,163,281)</u>	<u>\$ (2,284,748)</u>	<u>\$ (2,602,203)</u>	<u>\$ (2,378,950)</u>	<u>\$ (1,481,145)</u>	<u>\$ (625,689)</u>	<u>\$ (1,087,927)</u>	<u>\$ (1,377,308)</u>
Covered payroll	\$ 2,395,998	\$ 2,371,349	\$ 2,379,275	\$ 2,347,448	\$ 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 payroll in LEOFF 2	-156.36%	-58.77%	-66.09%	-61.51%	-44.36%	-19.20%	-35.41%	-47.69%
Plan fiduciary net position as a percentage of the total pension liability	142.00%	115.83%	119.43%	118.50%	113.36%	106.04%	111.67%	116.75%

* This schedule is intended to show information for the last 10 years however only eight 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 1 (PERS 1)
For the Year Ended December 31, 2021
Last 10 Fiscal Years *

	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions (actuarially determined)	\$ 380,654	\$ 418,857	\$ 437,529	\$ 422,087	\$ 381,731	\$ 350,071	\$ 310,417	\$ 269,414
Contributions in relation to the contractually required contributions	\$ (380,654)	\$ (418,857)	\$ (437,529)	\$ (422,087)	\$ (381,731)	\$ (350,071)	\$ (310,417)	\$ (269,414)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 8,522,685	\$ 8,519,638	\$ 8,622,610	\$ 8,157,822	\$ 7,624,452	\$ 7,195,872	\$ 6,989,870	\$ 6,547,257
Contributions as a percentage of covered payroll	4.47%	4.92%	5.07%	5.17%	5.01%	4.86%	4.44%	4.11%

* This schedule is intended to show information for the last 10 years however only eight 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)
For the Year Ended December 31, 2021
Last 10 Fiscal Years *

	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions (actuarially determined)	\$ 604,853	\$ 664,106	\$ 654,423	\$ 602,300	\$ 525,708	\$ 454,418	\$ 384,415	\$ 321,803
Contributions in relation to the contractually required contributions	\$ (604,853)	\$ (664,106)	\$ (654,423)	\$ (602,300)	\$ (525,708)	\$ (454,418)	\$ (384,415)	\$ (321,803)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 8,381,523	\$ 8,386,110	\$ 8,494,294	\$ 8,032,195	\$ 7,505,804	\$ 7,083,242	\$ 6,883,331	\$ 6,442,891
Contributions as a percentage of covered payroll	7.22%	7.92%	7.70%	7.50%	7.00%	6.42%	5.58%	4.99%

* This schedule is intended to show information for the last 10 years however only eight 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)
For the Year Ended December 31, 2021
Last 10 Fiscal Years *

	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions (actuarially determined)	\$ 128,687	\$ 130,187	\$ 128,469	\$ 127,607	\$ 116,464	\$ 103,365	\$ 96,865	\$ 90,284
Contributions in relation to the contractually required contributions	\$ (128,687)	\$ (130,187)	\$ (128,469)	\$ (127,607)	\$ (116,464)	\$ (103,365)	\$ (96,865)	\$ (90,284)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 2,502,156	\$ 2,526,643	\$ 2,463,014	\$ 2,426,859	\$ 2,180,981	\$ 1,976,382	\$ 1,918,110	\$ 1,787,799
Contributions as a percentage of covered payroll	5.14%	5.15%	5.22%	5.26%	5.34%	5.23%	5.05%	5.05%

* This schedule is intended to show information for the last 10 years however only eight 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, 2021

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 payroll are both affected by inflation. Expressing the net pension liability as a percentage of 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 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 1

There is no schedule presented of employer contributions for LEOFF Plan 1 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, 2021

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Revised	(Budgetary Basis)	Final Budget
REVENUES				
Property Taxes	\$ 7,900,000	\$ 8,037,000	\$ 8,061,834	\$ 24,834
Other Taxes	8,576,100	10,093,100	10,436,343	343,243
Fees and Fines	31,000	31,000	24,629	(6,371)
Licenses and Permits	604,000	604,000	655,275	51,275
Intergovernmental	435,200	435,200	741,911	306,711
Charges for Services	331,000	331,000	322,056	(8,944)
Interest	120,000	120,000	76,459	(43,541)
Other Revenues	77,000	77,000	143,306	66,306
Total REVENUES	18,074,300	19,728,300	20,461,812	733,512
EXPENDITURES				
General Government	6,007,688	6,116,438	5,235,863	880,575
Judicial	658,120	663,120	616,799	46,321
Public Safety	6,214,609	6,545,015	5,974,553	570,463
Physical Environment	1,024,541	1,154,686	686,079	468,606
Transportation	0	0	6,347	(6,347)
Health and Human Services	773,200	1,121,723	516,779	604,944
Economic Environment	1,632,853	1,700,561	1,101,555	599,006
Culture and Recreation	546,371	857,192	561,325	295,867
Debt Service - Interest	1,200	1,200	546	654
Capital Outlay	0	80,356	71,818	8,538
Total EXPENDITURES	16,858,583	18,240,291	14,771,666	3,468,625
Operating Income (Loss)	1,215,717	1,488,009	5,690,146	4,202,137
OTHER FINANCING SOURCES/USES				
Proceeds from Sale of Capital Assets	10,000	10,000	30,261	20,261
Transfers - Out	(3,150,002)	(3,390,002)	(2,985,373)	404,629
Transfers - In	0	0	488,613	488,613
Total OTHER FINANCING SOURCES/USES	(3,140,002)	(3,380,002)	(2,466,498)	913,503
Net Change in Fund Balance	(1,924,285)	(1,891,992)	3,223,648	5,115,640
Fund Balances -- Beginning	14,639,000	16,284,554	18,007,368	1,722,814
Total Ending Fund Balance	\$ 12,714,715	\$ 14,392,562	\$ 21,231,016	\$ 6,838,454

CITY OF BAINBRIDGE ISLAND, WASHINGTON

Budgetary Comparison Schedule

Street Fund

For the Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Revised	(Budgetary Basis)	Final Budget
REVENUES				
Other Taxes	\$ 540,000	\$ 231,000	\$ 331,270	\$ 100,270
Licenses and Permits	30,000	30,000	30,180	180
Intergovernmental	533,000	509,000	513,394	4,394
Charges for Services	0	0	272	272
Total REVENUES	1,103,000	770,000	875,116	105,116
EXPENDITURES				
General Government	446,453	431,453	420,731	10,721
Public Safety	30,000	20,000	152,880	(132,880)
Physical Environment	500	500	113,477	(112,977)
Transportation	2,524,471	2,882,014	2,659,473	222,541
Culture and Recreation	0	0	2,120	(2,120)
Capital Outlay	0	463,000	373,438	89,562
Total EXPENDITURES	3,001,424	3,796,966	3,722,120	74,847
Operating Income (Loss)	(1,898,424)	(3,026,966)	(2,847,004)	179,962
OTHER FINANCING SOURCES/USES				
Proceeds from Sale of Capital Assets	0	0	42,640	42,640
Transfers - In	1,898,424	1,918,424	2,942,428	1,024,004
Total OTHER FINANCING SOURCES/USES	1,898,424	1,918,424	2,985,068	1,066,644
Net Change in Fund Balance	0	(1,108,542)	138,064	1,246,606
Fund Balances -- Beginning	10,000	61,824	132,837	71,013
Total Ending Fund Balance	\$ 10,000	\$ (1,046,718)	\$ 270,901	\$ 1,317,619

CITY OF BAINBRIDGE ISLAND, WASHINGTON

Budgetary Comparison Schedule

Real Estate Excise Tax Fund

For the Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Revised	(Budgetary Basis)	Final Budget
REVENUES				
Other Taxes	\$ 2,900,000	\$ 4,002,000	\$ 4,225,695	\$ 223,695
Interest	10,000	10,000	6,058	(3,942)
Total REVENUES	2,910,000	4,012,000	4,231,753	219,753
Operating Income (Loss)	2,910,000	4,012,000	4,231,753	219,753
OTHER FINANCING SOURCES/USES				
Transfers - Out	(2,942,289)	(4,400,697)	(4,337,199)	63,498
Transfers - In	0	0	118,659	118,659
Total OTHER FINANCING SOURCES/USES	(2,942,289)	(4,400,697)	(4,218,540)	182,157
Net Change in Fund Balance	(32,289)	(388,697)	13,212	401,910
Fund Balances -- Beginning	1,100,000	2,528,199	2,567,493	39,294
Total Ending Fund Balance	\$ 1,067,712	\$ 2,139,502	\$ 2,580,705	\$ 441,203

CITY OF BAINBRIDGE ISLAND, WASHINGTON

Budgetary Comparison Schedule

Arpa Fund

For the Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Revised	(Budgetary Basis)	Final Budget
REVENUES				
Intergovernmental	\$ 0	\$ 3,534,392	\$ 0	\$ (3,534,392)
Interest	0	0	5,085	5,085
Total REVENUES	0	3,534,392	5,085	(3,529,307)
Operating Income (Loss)	0	3,534,392	5,085	(3,529,307)
Net Change in Fund Balance	0	3,534,392	5,085	(3,529,307)
Fund Balances -- Beginning	0	0	0	0
Total Ending Fund Balance	\$ 0	\$ 3,534,392	\$ 5,085	\$ (3,529,307)

City of Bainbridge Island
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	Passed through to Subrecipients
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Bulletproof Vest Partnership Program	16.607	nONE	-	1,461	1,461	-
Highway Planning and Construction Cluster							
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	HSIP-6700(001) la-9825	3,586	-	3,586	-
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUL-6703 (002) LA-10032	621,083	-	621,083	-
Total Highway Planning and Construction Cluster:				624,669	-	624,669	-
ENVIRONMENTAL PROTECTION AGENCY, ENVIRONMENTAL PROTECTION AGENCY (via Washington State Department of Ecology)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	WQNEP-2020- BAINISL-00064	53,114	-	53,114	-
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Washington State Military Department)	COVID 19 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	D20-112/FEMA- 4481-DR-WA	107,316	-	107,316	-

The accompanying notes are an integral part of this schedule.

City of Bainbridge Island

Expenditures

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, 2021

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 – 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.

NOTE 3 – 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 4 – 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 principal payments and balances outstanding at year end are shown in Note 8 (Long-term Liabilities) to the City's financial statements.



CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

City of Bainbridge Island January 1, 2021 through December 31, 2021

This schedule presents the corrective action planned by the City for findings reported in this report 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).

Finding ref number: 2021-001	Finding caption: The City's internal controls were inadequate for ensuring proper revenue recognition for grant funds received in advance.
Name, address, and telephone of City contact person: Karl Shaw, Accounting Manager 280 Madison Avenue N. Bainbridge Island, WA 98110 206-780-8606	
Corrective action the auditee plans to take in response to the finding: <i>The City of Bainbridge Island will implement the following additional procedures to strengthen internal controls over revenue recognition:</i> <ul style="list-style-type: none">• <i>In the case of future special grant programs, we will seek specific reporting guidance.</i>• <i>We will hire an outside consultant to perform an additional review of the financial statements.</i>• <i>We will ensure there is extra time for financial statement review.</i>	
Anticipated date to complete the corrective action: April 2023.	

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

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