

Washington State Auditor's Office
Financial Statements Audit Report

City of Bonney Lake
Pierce County

Audit Period
January 1, 2004 through December 31, 2004

Report No. 70150

Issue Date
February 24, 2006



Washington _____
State Auditor
_____ Brian Sonntag



**Washington State Auditor
Brian Sonntag**

February 24, 2006

Mayor and City Council
City of Bonney Lake
Bonney Lake, Washington

Report on Financial Statements

Please find attached our report on the City of Bonney Lake's financial statements.

We are issuing this report in order to provide information on the City's financial condition.

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Pierce County
January 1, 2004 through December 31, 2004**

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

**City of Bonney Lake
Pierce County
January 1, 2004 through December 31, 2004**

Mayor and City Council
City of Bonney Lake
Bonney Lake, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bonney Lake, Pierce County, Washington, as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 25, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, and contracts with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. 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 herein under *Government Auditing Standards*.

This report is intended for the information and use of management and the Mayor and City Council. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" written in a larger, more prominent script than the last name "Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

July 25, 2005

Independent Auditor's Report on Financial Statements

City of Bonney Lake Pierce County January 1, 2004 through December 31, 2004

Mayor and City Council
City of Bonney Lake
Bonney Lake, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bonney Lake, Pierce County, Washington, as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed on page 5. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bonney Lake, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund and the Municipal Capital Improvement Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 6 through 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of

management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

July 25, 2005

Financial Section

**City of Bonney Lake
Pierce County
January 1, 2004 through December 31, 2004**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2004

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2004

Statement of Activities – 2004

Balance Sheet – Governmental Funds – 2004

Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds – 2004

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2004

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund – 2004

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Municipal Capital Improvement Fund – 2004

Statement of Net Assets – Proprietary Funds – 2004

Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds – 2004

Statement of Cash Flows – Proprietary Funds – 2004

Statement of Fiduciary Net Assets – Agency Funds – 2004

Notes to the Financial Statements – 2004

Management's Discussion and Analysis

As management of the City of Bonney Lake, we offer readers of the City of Bonney Lake's financial statements this narrative overview and analysis of the financial activities of the City of Bonney Lake for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 2-4 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City of Bonney Lake exceeded its liabilities at the close of the most recent fiscal year by \$68,839 (net assets). Of this amount, \$11,301 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The total net assets increased by \$11,286. Approximately two thirds of this increase is attributable to a system development charges for the water and sewer system. Many citizens chose to pay these charges in 2004 before the new rates went into effect. Approximately one sixth of this increase is attributable to collection of Park Impact, Transportation Impact, and Traffic Mitigation fees.
- As of the close of the current fiscal year, the City of Bonney Lake's governmental funds reported combined ending fund balances of \$16,789, an increase of \$3,273 in comparison with the prior year. Because the part of the increase was caused by the collection of special revenues for Park Impact fees, Transportation Impact fees, and Traffic Mitigation fees, this entire total amount, \$1,161, is restricted for capital projects.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$3,848, or 54 percent of total General Fund expenditures.
- The total debt increased by \$796 (11 percent) during the current fiscal year. The key factor in this increase was the issuance of \$2,000 in new Public Works Trust Fund Loans for the Water and Sewer Fund.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Bonney Lake's basic financial statements. The City of Bonney Lake's basic financial statements comprise three components: 1) Government-wide financial statements; 2) Fund financial statements; and 3) Notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Bonney Lake's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Bonney Lake that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Bonney Lake include general government, public safety, highways and streets, economic development, and culture and recreation. The business-type activities of the City of Bonney Lake include the water system distribution system, the sewer collection system and the storm water collection system. For the first nine months the City provided customer service and billing for a solid waste collection operation. This was discontinued as of October 1, 2004. After that date, a private business collects the solid waste for the City's citizens.

The City of Bonney Lake has no separately identified component units. Therefore, none are included in these financial statements.

The government-wide financial statements can be found on pages 23 and 24 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Bonney Lake, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Bonney Lake can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-

wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Bonney Lake maintains fourteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, and the Municipal Capital Improvement Fund, both of which are considered to be major funds. Data from the other fourteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund, and the Municipal Capital Improvement fund. A budgetary comparison statement has been provided for the each of the above listed funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 25-29 of this report.

Proprietary funds. The City of Bonney Lake maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Bonney Lake uses enterprise funds to account for its Water and Sewer Fund and for its Storm Water Fund and Solid Waste Fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Bonney Lake's various functions. The City of Bonney Lake uses internal service funds to account for its fleet of vehicles and to provide insurance coverage for all funds and departments. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund which is considered to be major fund of the City of Bonney Lake. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Data from the other two proprietary funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor proprietary funds is provided in the form of *combining statements* elsewhere in this report. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 30-32 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of

parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 33 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34-58 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Bonney Lake's financial results. Combining and individual fund statements and schedules can be found on pages 62-90 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Bonney Lake, assets exceeded liabilities by \$68,838 at the close of the most recent fiscal year.

The largest portion of the City of Bonney Lake's net assets (53 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, construction in progress, and intangible assets such as water rights and sewer capacity); less any related debt used to acquire those assets that are still outstanding. The City of Bonney Lake uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Bonney Lake's Net Assets						
	Governmental		Business-type		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	10,491	10,144	21,521	22,268	32,012	32,412
Capital assets, net of accumulated depreciation	9,166	6,531	51,483	39,890	60,649	46,421
Total assets	19,657	16,675	73,004	62,158	92,661	78,833
Long-term liabilities	2,176	2,393	17,517	16,335	19,694	18,728
Other liabilities	691	766	3,437	2,000	4,128	2,766
Total liabilities	2,867	3,159	20,954	18,335	23,822	21,494
Net assets:						
Invested in capital assets, net of related debt	7,075	4,137	29,515	29,682	36,590	33,819
Restricted	6,206	5,018	14,740	8,333	20,946	13,351
Unrestricted	3,508	4,360	7,794	5,808	11,302	10,168
Total net assets	16,789	13,515	52,049	43,823	68,838	57,338

The remaining balance of *unrestricted net assets* (\$11,302) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Bonney Lake is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

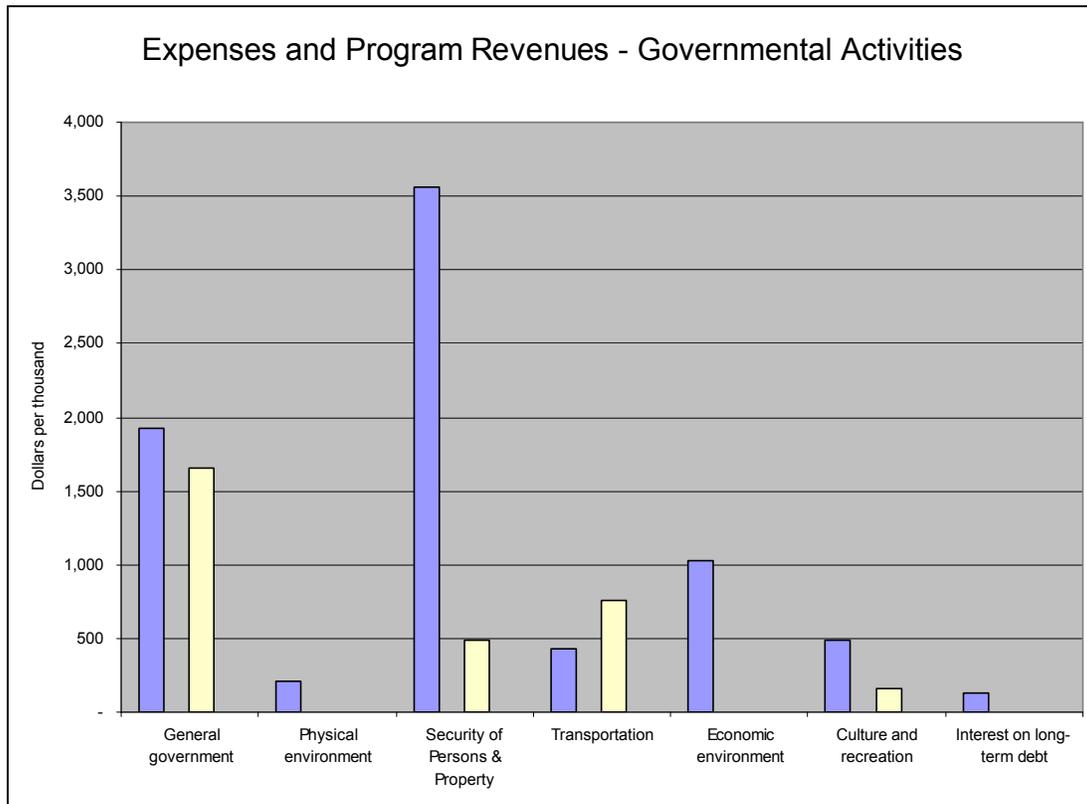
There was an increase of \$6,407 in restricted net assets reported in connection with the City's business-type activities. The majority of the increase is a result of development fees collected before the increase in system development charges went into effect.

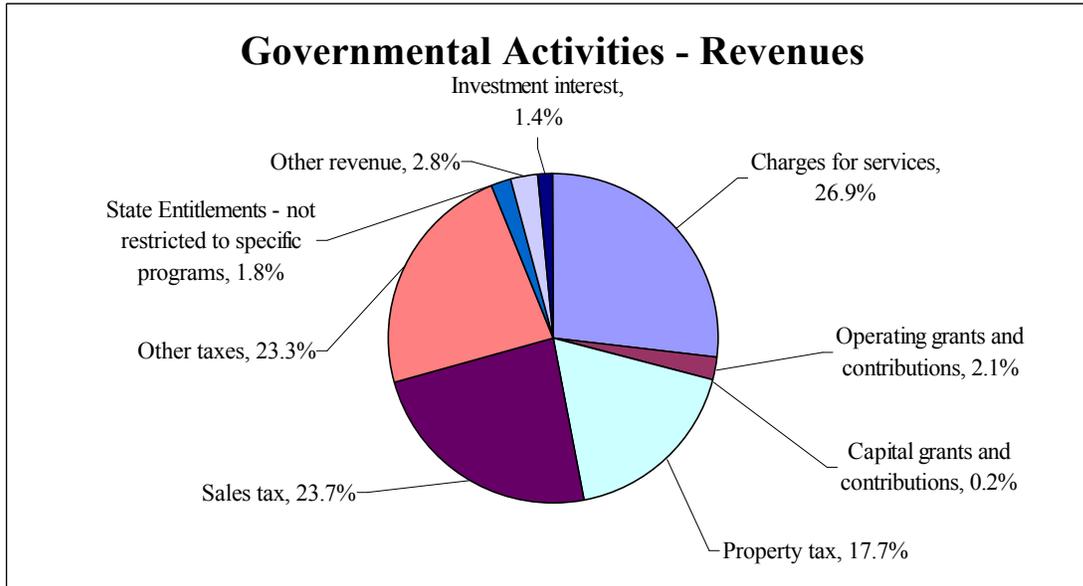
The government's net assets increased by \$3,274 during the current fiscal year. About three fourths of this increase represents the land acquired to add to existing parks described above. The majority of the remaining increase in restricted net assets is due to the collection of impact fees for park, traffic, and transportation.

City of Bonney Lake's Changes in Net Assets						
	Governmental		Business-type		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
Program revenues:						
Charges for services	\$3,279	\$2,657	\$7,268	\$7,260	\$10,547	\$9,917
Operating grants and contributions	245	362			245	362
Capital grants and contributions	27	384	8,729	5,480	8,756	5,864
General revenues:						
Property Taxes	2,017	1,830			2,017	1,830
Sales Taxes	2,704	2,108			2,704	2,108
Other Taxes	2,654	2,564			2,654	2,564
Grants and contributions not restricted	208				208	
Other	487	169	320	211	807	380
Total revenues	11,621	10,074	16,317	12,951	27,938	23,025
Expenses:						
General government	1,920	1,703			1,920	1,703
Public safety	3,556	3,032			3,556	3,032
Utilities and environment	210	356			210	356
Highways and streets	433	478			433	478
Economic development	1,029	658			1,029	658
Culture and recreation	486	350			486	350
Interest on long-term debt	127	138	399	454	526	592
Water/Sewer			6,201	5,133	6,201	5,133
Other enterprise funds			1,147	1,450	1,147	1,450
Total expenses	7,761	6,715	7,747	7,037	15,508	13,752

City of Bonney Lake's Changes in Net Assets (Continued)						
	Governmental		Business-type		Total	
	2004	2003	2004	2003	2004	2003
Total revenues	11,621	10,074	16,317	12,951	27,938	23,025
Total expenses	7,761	6,715	7,747	7,037	15,508	13,752
Increase in net assets before transfers	3,860	3,359	8,570	5,914	12,430	9,273
Transfers	252	155	(252)	(155)	0	0
Increase in net assets	4,112	3,514	8,318	5,759	12,430	9,273
Net assets – beginning	12,678	9,164	43,731	37,972	56,409	47,136
Net assets - ending	\$16,790	\$12,678	\$52,049	\$43,731	\$68,839	\$56,409

Governmental-type activities: For the past few years, the City of Bonney Lake has been one of the fastest growing cities in the State of Washington. Governmental-type activities increased by \$3,273, accounting for 24.2 percent of the total growth in the governmental-type's net assets. Public safety (law enforcement) and economic development (Building and Planning Departments) have been the first to respond to the increased demands because of the growth. Sales tax revenue has been out-performing the property tax revenue in the last few years, due to of new construction and the influx of retail businesses. As long as the interest rate stays low, the City expects the growth to continue for the next few years. Nevertheless, the City anticipates a slow down in the growth of sales tax revenue.





Business-type activities. Business-type activities increased the City of Bonney Lake's net assets by \$8,570, accounting for 45 percent of the total growth in the business-type's net assets. The majority of this increase is due to capital contribution. Capital contributions emerged as a major revenue source for the Water and Sewer Fund during the current fiscal year and prior fiscal year, producing \$8,729 and \$5,480 in revenue, respectively. This increase is the result of legislation passed by the City Council establishing mandatory system development charges (tap fees) and the construction that is occurring within the City for residential housing and a new business core. The system development charges for water increased substantially starting on January 1, 2005. Many developers took advantage of the period before the increase in rates to pay their system development charges for water during the last few days of 2004. The City expects lower total capital contributions in 2005. Tap fees are set significantly in excess of actual connection costs, must be used for capital purposes or debt service. The Water and Sewer Fund has spent \$11,617 for water and sewer projects to date. In addition, it plans to spend another \$24,875 within the next few years.

Charges for services for business-type activities stayed the same as in the prior year, while the expenses increased by 10 percent. With the additional operations demands because of growth and the additional debt service demands because Public Work Trust Fund Loans will be providing additional funding for the water and sewer projects, the City Council raised the water and sewer rates in 2005. Water rates were increased by 15% each year for the next three years. Sewer rates were increased by the cost of projected inflation each year over the next three years.

Financial Analysis of the Government's Funds

As noted earlier, the City of Bonney Lake uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Bonney Lake's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Bonney Lake's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Bonney Lake's governmental funds reported combined ending fund balances of \$16,789, an increase of \$3,273 in comparison with the prior year. Approximately one-third of this total amount (\$1,187) constitutes *reserved or designated fund balance* to indicate that it is not available for new spending because it has already been committed to pay for capital improvement projects. The remaining two-thirds of this total amount (\$2,938) constitute *invested in capital assets, net of related debt*. This represents the amount of property purchase to expand parks.

The General Fund is the chief operating fund of the City of Bonney Lake. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$3,848. The total fund balance was the same amount. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 54 percent of total General Fund expenditures.

During the current fiscal year, the fund balance of the City of Bonney Lake's General Fund increased by \$496. Key factors in this growth are as follows:

- An increase in the local tax collection of \$1,769 or 35% due to the growth the City is experiencing.
- The General Fund transferred \$1,000 to the Municipal Capital Improvement Fund. These funds and other funds paid for land acquired for a park.
- The General Fund transferred \$352 to the Streets Fund. These funds brought the fund into a positive cash balance and paid for a portion of the chip seal program and a new snow plow for the new dump truck.

Proprietary funds. The City of Bonney Lake's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$7,443. The total growth in net assets for was \$8,555. Other factors concerning the finances of this fund have already been addressed in the discussion of the City of Bonney Lake's business-type activities.

General Fund Budgetary Highlights

During the year, there was no increase in total appropriations between the original and final amended budget (\$9,499). In the adopted budget ordinance, the City appropriates total expenditures, other financing uses, and ending fund balance as one expenditure total. During the year, some of the appropriated ending fund balance was transferred to expenditures. The total amount reclassified was \$213, which is considered to be insignificant amount.

Capital Asset and Debt Administration

Capital assets. The City of Bonney Lake's investment in capital assets for its governmental and business-type activities as of December 31, 2005, amounts to \$56,994 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways, and bridges, and intangible assets such as sewer capacity and water rights. The total increase in the City of Bonney Lake's investment in capital assets for the current fiscal year was 22 percent (an insignificant increase for governmental activities and an eight percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- The City acquired land for its park system (\$2,685.)
- Construction continued on the expansion of the City of Sumner's wastewater treatment facilities for the Water and Sewer Fund. The City of Bonney Lake's portion of the sewer capacity rights at the close of the fiscal year had reached \$8,079.
- Various system additions and improvements were completed in the Water and Sewer Fund at a cost of \$2,613.

City of Bonney Lake's Changes in Capital Assets (net of depreciation)						
	Governmental		Business-type		Total	
	2004	2003	2004	2003	2004	2003
Land	3,333	647	491	491	3,824	1,138
Building	2,261	2,369	173	180	2,434	2,549
Improvements other than building	392	409	33,607	33,957	33,999	34,366
Machinery and equipment	1,579	1,685	1,168	1,066	2,747	2,751
Infrastructure	1,591	1,421			1,591	1,421
Intangible assets			8,262		8,262	
Construction in progress			4,136	4,196	4,136	4,196
Total	9,156	6,531	47,837	39,890	56,993	46,421

Additional information on the City of Bonney Lake's capital assets can be found in Note 6 on pages 43-45 of this report.

Long-term debt. At the end of the current fiscal year, the City of Bonney Lake had a total bonded debt outstanding of \$20,420. All special assessment debt was paid in full by the end of the current year. Of this amount, \$2,081 comprises debt backed by the full faith and credit of the government. The remainder of the City of Bonney Lake's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

City of Bonney Lake's Outstanding Debt General Obligation, Revenue Bonds, Public Works Trust Fund Loans, and Other Debt						
	Governmental		Business-type		Total	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	\$2,065	\$2,310			\$2,065	\$2,310
PWTF Loans	16	21	\$12,304	\$10,922	12,320	10,943
Special Assessment Debt	0	55			0	55
Revenue Bonds			6,035	6,310	6,035	6,310
Total	\$2,081	\$2,386	\$18,339	\$17,232	\$20,420	\$19,618

During the current fiscal year, the City of Bonney Lake's total debt increased by \$802 (4 percent). The key factor in this increase was a \$2,000 Public Works Trust Fund Loan issuance for the City of Bonney Lake's Water and Sewer Fund.

The City of Bonney Lake and its Water and Sewer Fund both maintain an "A-" underlying rating with "AAA" due to Ambac Insurance from Standard & Poor's Ratings for Water and Sewer Revenue debt.

The 1997 General Obligation Bond was approved with a 3/5 vote of the people. State statutes limit the amount of general obligation debt a governmental entity may issue to 2 1/2 percent of its total assessed valuation with a 60% majority vote of the people. The current debt limitation for the City of Bonney Lake is \$51,213, which is significantly in excess of the City of Bonney Lake's outstanding general obligation debt.

Additional information on the City of Bonney Lake's long-term debt can be found in note 9 on pages 51-55 of this report.

Economic Factors and Next Year's Budgets and Rates

Unemployment Rates			
	Mar 05	Feb 05	Mar 04
Pierce County	6.0%	6.7%	8.0%
Washington	5.2%	5.5%	6.5%
United States	5.2%	5.8%	5.7%
Source: Employment Security website – Bureau of Labor and Statistics and Washington State Labor Market and Economic Analysis			

The unemployment rate for the City of Bonney Lake was estimated at 6 percent, in March 2005, which is a decrease from a rate of 8 percent in March 2004. This compares unfavorably to the state's average unemployment rate and the national average rate of 5.2 percent in March 2005.

Consumer Price Index					
	Indexes			% Change from	
	Feb 05	Jan 05	Feb 04	Jan 05	Feb 04
US City Average	191.8	190.7	186.2	.6%	3.0%
Pierce County	197.6	195.1	193.5	1.3%	2.1%
Source: Employment Security website – U.S. Department of Labor, Bureau of Labor Statistics					

Inflationary trends in the region compare slightly unfavorably to national indexes.

All of these factors were considered in preparing the City of Bonney Lake's budget for the 2005 fiscal year.

During the current fiscal year, unreserved, undesignated fund balance in the General Fund increased to \$3,848. During each fiscal year, the City of Bonney Lake has appropriated the entire ending fund balances for this fund and all other funds for spending in the 2005 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes or charges during the 2005 fiscal year.

The Water and Sewer Fund's rates were increased for the 2005 budget year. The water rates were increased by an average of 15 percent for all customers, while the average increase in the sewer rates was 1.5 percent. These rates increase this same percentage for each of the next three years. The water and sewer rates affected both residential and industrial consumers by approximately the same percentage. These increases were necessary to finance debt service on the new debt issued during the current fiscal year by the Water and Sewer Fund. In addition, the Washington State Public Works Board has awarded the City of Bonney Lake additional Public Works Trust Fund Loans adding another \$8,000 in debt which may be subsequently issued by the water and sewer operation in the next few years.

Requests for Information

This financial report is designed to provide a general overview of the City of Bonney Lake's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 19306 Bonney Lake Blvd., Bonney Lake, Washington, 98391-0944.

City of Bonney Lake
Statement of Net Assets
December 31, 2004
(amounts expressed in dollars)

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash & cash equivalents	\$ 8,945,945	\$ 17,958,316	\$ 26,904,261
Investments		4,050,000	4,050,000
Receivables (net of allowance for uncollectibles)	729,969	902,505	1,632,474
Inventories		43,195	43,195
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	814,885	2,212,468	3,027,353
Non-current assets:			
Special assessment receivable	10,195		10,195
Capital assets not being depreciated:			
Land	3,333,148	490,813	3,823,961
Construction in progress		4,136,161	4,136,161
Capital assets net of accumulated depreciation:			-
Buildings and system	2,261,402	172,876	2,434,278
Improvements other than buildings	391,636	33,607,708	33,999,344
Machinery and equipment	1,578,932	1,167,590	2,746,522
Infrastructure	1,590,939		1,590,939
Intangible assets		8,262,374	8,262,374
Total assets	19,657,051	73,004,006	92,661,057
LIABILITIES			
Accounts payable and other current liabilities	415,625	2,364,770	2,780,395
Accrued interest payable		136,065	136,065
Due within one year			
Special assessments - deferred revenue	20,423		20,423
Bonds, public works trust fund loans, and compensated absences payable	255,400	936,486	1,191,886
Noncurrent liabilities:			
Special assessments - deferred revenue	10,195		10,195
Bonds, public works trust fund loans, and compensated absences payable	2,166,227	17,517,341	19,683,568
Total liabilities	2,867,870	20,954,662	23,822,532
NET ASSETS			
Invested in capital assets, net of related debt	7,075,075	29,515,682	36,590,757
Restricted	6,206,176	14,739,908	20,946,084
Unrestricted	3,507,930	7,793,756	11,301,686
Total net assets	\$ 16,789,181	\$ 52,049,346	\$ 68,838,527

The notes to the financial statements are an integral part of this statement.

City of Bonney Lake
Statement of Activities
For the Year Ended December 31, 2004
(amounts expressed in dollars)

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 1,920,666	\$ 1,628,403	\$	\$	\$ -292,263	\$	\$ -292,263
Public safety	3,556,600	490,164	227,702		-2,838,734		-2,838,734
Utilities and environment	209,602			24,283	-185,319		-185,319
Highways and streets	433,189	1,000,074		3,456	570,341		570,341
Economic development	1,029,148		17,200		-1,011,948		-1,011,948
Culture and recreation	486,472	160,500			-325,972		-325,972
Interest on long-term debt	126,699				-126,699		-126,699
Total governmental activities	<u>7,762,376</u>	<u>3,279,141</u>	<u>244,902</u>	<u>27,739</u>	<u>-4,210,594</u>	<u>0</u>	<u>-4,210,594</u>
Business-type activities:							
Water and sewer	6,200,752	6,136,565		8,728,593		8,664,406	8,664,406
Other enterprise funds	1,146,955	1,131,968				-14,987	-14,987
Total business-type activities	<u>7,347,707</u>	<u>7,268,533</u>	<u>0</u>	<u>8,728,593</u>	<u>0</u>	<u>8,649,419</u>	<u>8,649,419</u>
Total primary government	<u>\$ 15,110,083</u>	<u>\$ 10,547,674</u>	<u>\$ 244,902</u>	<u>\$ 8,756,332</u>	<u>\$ -4,210,594</u>	<u>\$ 8,649,419</u>	<u>\$ 4,438,825</u>
General revenues:							
Property taxes					2,016,495		2,016,495
Sales taxes					2,704,402		2,704,402
Franchise taxes					890,352		890,352
Motor fuel taxes					292,117		292,117
Forest excise tax - private timber					330		330
Interfund utility taxes					477,361		477,361
Private utility taxes					957,413		957,413
Gaming taxes					36,055		36,055
State grants - not restricted to specific programs					31,835		31,835
State entitlements - not restricted to specific programs					176,552		176,552
Other revenues							
Other income					147,221	9,222	156,443
Unrestricted investment earnings					164,270	310,744	475,014
Proceeds from sale of asset					175,843		175,843
Transfers					251,841	-251,841	0
Interest on long-term debt						-398,157	-398,157
Amortization of bond discount						-1,157	-1,157
Total general revenues and transfers					<u>8,322,087</u>	<u>-331,189</u>	<u>7,990,898</u>
Change in net assets					<u>4,111,493</u>	<u>8,318,230</u>	<u>12,429,723</u>
Total net assets - beginning					<u>12,677,688</u>	<u>43,731,115</u>	<u>56,408,803</u>
Total net assets - ending					<u>\$ 16,789,181</u>	<u>\$ 52,049,345</u>	<u>\$ 68,838,526</u>

The notes to the financial statements are an integral part of this statement.

**City of Bonney Lake
Balance Sheet
Governmental Funds
December 31, 2004**
(amounts expressed in dollars)

	General Fund	Municipal Capital Improvement Fund	Other Governmental Funds	Total
ASSETS				
Cash and cash equivalents	\$ 2,844,120	\$ 1,949,947	\$ 3,229,616	\$ 8,023,683
Receivables:				
Taxes	536,172	58,636	49,960	644,768
Customer accounts	55,220		9,558	64,778
Special assessments				
Due within one year			20,423	20,423
Due in more than one year			10,195	10,195
Restricted assets:				
Equity in pooled cash and investments	797,019		17,866	814,885
Total assets	4,232,531	2,008,583	3,337,618	9,578,732
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	162,053	5,488	21,200	188,741
Due to other governmental units	14,910			14,910
Custodial accounts - restricted	12,607			12,607
Deposits payable - restricted	194,604			194,604
Special assessments - deferred revenue				
Due within one year			20,423	20,423
Due in more than one year			10,195	10,195
Total liabilities	384,174	5,488	51,818	441,480
Fund balances:				
Reserved for:				
Debt service			304,811	304,811
Unreserved, undesignated reported in:				
General fund	3,848,357			3,848,357
Special revenue funds			2,855,514	2,855,514
Capital project funds	-	2,003,095	125,475	2,128,570
Total fund balances	3,848,357	2,003,095	3,285,800	9,137,252
Total liabilities and fund balances	\$ 4,232,531	\$ 2,008,583	\$ 3,337,618	

Amounts reported for governmental activities in the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore not reported in the fund	9,156,057
Internal service funds are used by management to charge the cost of equipment repairs, maintenance and insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.	917,281
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the funds.	-2,421,409
Net assets of governmental activities	\$ 16,789,181

The notes to the financial statements are an integral part of this statement.

City of Bonney Lake
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2004
(amounts expressed in dollars)

	General Fund	Municipal Capital Improvement Fund	Other Governmental Fund	Total
REVENUES				
Taxes:				
Property	\$ 1,650,879	\$	\$ 365,616	\$ 2,016,495
Retail sales & use taxes	2,704,402			2,704,402
Real estate excise tax		890,352		890,352
Motor vehicle fuel tax			292,117	292,117
Other taxes	1,471,159			1,471,159
Licenses and permits	932,957			932,957
Intergovernmental	405,289		48,000	453,289
Charges for services	682,013		1,174,007	1,856,020
Fines and forfeitures	463,135		27,029	490,164
Special assessments			27,739	27,739
Miscellaneous:				
Interest	67,802	43,998	40,451	152,251
Other	87,361	12,964	22,658	122,983
Total revenues	<u>8,464,997</u>	<u>947,314</u>	<u>1,997,617</u>	<u>11,409,928</u>
EXPENDITURES				
Current:				
General government services	1,920,666			1,920,666
Public safety	3,453,369		103,231	3,556,600
Utilities and environment	209,602			209,602
Highway and streets			433,189	433,189
Economic environment	1,029,148			1,029,148
Culture and recreation	486,472			486,472
Debt service:				
Principal		5,426	305,400	310,826
Interest		354	126,345	126,699
Capital Outlay:				
Highways and streets		372	203,649	204,021
Other		2,685,544	103,152	2,788,696
Total expenditures	<u>7,099,257</u>	<u>2,691,696</u>	<u>1,274,966</u>	<u>11,065,919</u>
Excess(deficiency) of revenues over (under) expenditures	<u>1,365,740</u>	<u>-1,744,382</u>	<u>722,651</u>	<u>344,009</u>
OTHER FINANCING SOURCES (USES)				
Transfers in:	530,705	1,000,000	889,841	2,420,546
Transfers out:	-1,399,841	-378,864	-390,000	-2,168,705
Sale of capital assets		165,722		165,722
Total other financing sources and (uses)	<u>-869,136</u>	<u>786,858</u>	<u>499,841</u>	<u>417,563</u>
Net change in fund balances	<u>496,604</u>	<u>-957,524</u>	<u>1,222,492</u>	<u>761,572</u>
Fund balances - beginning	3,351,753	2,960,619	2,063,308	8,375,680
Fund balances - ending	<u>\$ 3,848,357</u>	<u>\$ 2,003,095</u>	<u>\$ 3,285,800</u>	<u>\$ 9,137,252</u>

The notes to the financial statements are an integral part of this statement.

City of Bonney Lake
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended December 31, 2004
(amounts expressed in dollars)

Amounts reported for governmental activities in the statement of activities (page 24) are different because:

Net change in fund balances - total governmental funds (page 26)	\$ 548,292
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,992,717
The repayment of principal on long-term debt consumes the current financial resources of government funds but has no effect on net assets.	310,826
Internal service funds are used by management to charge cost of equipment repair, maintenance and insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	46,378
Change in net assets of governmental activities (page 24)	\$ <u><u>3,898,213</u></u>

The notes to the financial statements are an integral part of this statement.

City of Bonney Lake
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended December 31, 2004
(amounts expressed in dollars)

	Budgeted Amounts		General Fund	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 1,631,458	\$ 1,631,458	\$ 1,650,879	\$ 19,421
Retail sales & use taxes	1,765,480	1,765,480	2,704,402	938,922
Other taxes	1,474,302	1,474,302	1,471,159	-3,143
Licenses and permits	1,040,270	1,040,270	932,957	-107,313
Intergovernmental	368,563	368,563	405,289	36,726
Charges for services	717,647	717,647	682,013	-35,634
Fines and forfeitures	435,710	435,710	463,135	27,425
Miscellaneous:				
Interest	20,730	20,730	67,802	47,072
Other	42,547	42,547	87,361	44,814
Total revenues	7,496,707	7,496,707	8,464,997	968,290
EXPENDITURES				
Current:				
General government services	2,266,859	2,344,098	1,920,666	423,432
Public safety	3,318,032	3,552,727	3,453,369	99,358
Utilities and environment	204,718	259,395	209,602	49,793
Highway and streets				
Economic environment	1,252,257	1,258,257	1,029,148	229,109
Culture and recreation	837,896	678,553	486,472	192,081
Total expenditures	7,879,762	8,093,030	7,099,257	993,773
Excess(deficiency) of revenues over (under) expenditures	-383,055	-596,323	1,365,740	1,962,063
OTHER FINANCING SOURCES (USES)				
Transfers in:	443,000	443,000	530,705	87,705
Transfers out:	-1,148,000	-1,148,000	-1,399,841	-251,841
Total other financing sources and (uses)	-705,000	-705,000	-869,136	-164,136
Net change in fund balances	-1,088,055	-1,301,323	496,604	1,797,927
Fund balances - beginning	1,559,865	1,346,597	3,351,753	2,005,156
Fund balances - ending	\$ 471,810	\$ 45,274	\$ 3,848,357	\$ 3,803,083

The notes to the financial statements are an integral part of this statement.

City of Bonney Lake
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Municipal Capital Improvement Fund
For the Year Ended December 31, 2004
(amounts expressed in dollars)

	<u>Budgeted Amounts</u>				<u>Municipal Capital Improvement Fund</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>				
REVENUES						
Taxes:						
Real estate excise tax	\$ 680,000	\$ 680,000	\$	890,352	\$	210,352
Miscellaneous:						
Interest	10,000	10,000		43,998		33,998
Total revenues	<u>690,000</u>	<u>690,000</u>		<u>934,350</u>		<u>244,350</u>
EXPENDITURES						
Debt service:						
Principal				5,426		-5,426
Interest				354		-354
Capital Outlay:						
Highways and streets		225,000		372		-372
Other		225,000		2,685,544		-2,460,544
Total expenditures	<u>0</u>	<u>225,000</u>		<u>2,691,696</u>		<u>-2,466,696</u>
Excess(deficiency) of revenues over (under) expenditures	<u>690,000</u>	<u>465,000</u>		<u>-1,757,346</u>		<u>-2,222,346</u>
OTHER FINANCING SOURCES (USES)						
Transfers in:	1,000,000	1,225,000		1,000,000		-225,000
Transfers out:	-543,000	-543,000		-378,864		164,136
Sale of capital assets				165,722		165,722
Total other financing sources and (uses)	<u>-543,000</u>	<u>-543,000</u>		<u>-213,142</u>		<u>329,858</u>
Net change in fund balances	<u>147,000</u>	<u>-78,000</u>		<u>-1,970,488</u>		<u>-1,892,488</u>
Fund balances - beginning	3,077,705	3,077,705		2,960,619		-117,086
Fund balances - ending	<u>\$ 3,224,705</u>	<u>\$ 2,999,705</u>	\$	<u>990,131</u>	\$	<u>-2,009,574</u>

The notes to the financial statements are an integral part of this statement.

City of Bonney Lake
Statement of Net Assets
Proprietary Funds
December 31, 2004
(amounts expressed in dollars)

		<u>Water and Sewer</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>		<u>Governmental Activities - Internal Service Funds</u>
ASSETS						
Current assets:						
Cash & cash equivalents	\$	21,685,162	\$ 323,154	\$ 22,008,316	\$	922,262
Restricted cash, cash equivalents and investments:						
Deposits		538,177	14,174	552,351		
Accounts receivable (net of allowance for uncollectibles)		872,121	30,384	902,505		
Inventories		43,195		43,195		
Restricted cash, cash equivalents and investments:						
Revenue bond covenant accounts		1,660,117	367,712	1,660,117		
Total current assets		<u>24,798,772</u>	<u>367,712</u>	<u>25,166,484</u>		<u>922,262</u>
Noncurrent assets:						
Capital assets:						
Land		490,813		490,813		
Buildings and system		291,746		291,746		
Improvements other than buildings		47,203,378		47,203,378		
Machinery and equipment		3,043,384		3,043,384		522,332
Construction in progress		4,136,161		4,136,161		
Intangible asset						
Sewer capacity		8,079,670		8,079,670		
Water rights		617,566		617,566		
Less accumulated depreciation and amortization		<u>(16,988,836)</u>		<u>(16,988,836)</u>		<u>(522,332)</u>
Total capital assets (net of accumulated depreciation)		<u>46,873,882</u>	<u>-</u>	<u>46,873,882</u>		<u>-</u>
Total noncurrent assets		<u>46,873,882</u>	<u>-</u>	<u>46,873,882</u>		<u>-</u>
Total assets		<u>71,672,654</u>	<u>367,712</u>	<u>72,040,366</u>		<u>922,262</u>
LIABILITIES						
Current liabilities:						
Accounts payable		1,942,618	2,250	1,944,868		4,763
Deposits payable		404,456	15,446	419,902		
Accrued interest payable		136,065		136,065		
Revenue bonds payable - current		290,000		290,000		
Public works trust fund loans payable - current		646,486		646,486		
Total current liabilities		<u>3,419,625</u>	<u>17,696</u>	<u>3,437,321</u>		<u>4,763</u>
Noncurrent liabilities:						
Compensated absences		131,984		131,984		218
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)		5,727,812		5,727,812		
Public works trust fund loans payable		11,657,545		11,657,545		
Total noncurrent liabilities		<u>17,517,341</u>	<u>-</u>	<u>17,517,341</u>		<u>218</u>
Total liabilities		<u>20,936,966</u>	<u>17,696</u>	<u>20,954,662</u>		<u>4,981</u>
NET ASSETS						
Invested in capital assets, net of related debt		28,552,041	963,641	29,515,682		
Restricted for capital assets acquisition or debt service		14,739,908		14,739,908		
Unrestricted		7,443,740	350,015	7,793,755		917,281
Total net assets		<u>\$ 50,735,689</u>	<u>\$ 1,313,656</u>	<u>\$ 52,049,345</u>		<u>\$ 917,281</u>

The notes to the financial statements are an integral part of this statement.

City of Bonney Lake
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2004
(amounts expressed in dollars)

	Business Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water and Sewer	Nonmajor Enterprise Funds	Total		Funds
Operating revenues:					
Charges for sales and services:					
Water sales	\$ 3,071,454	\$ -	\$ 3,071,454		
Sewer sales	2,454,730		2,454,730		
Water sales pledged as security for revenue bonds	502,350		502,350		
Sewer charges pledged as security for revenue bonds	108,031		108,031		
Other sales and services		1,139,185	1,139,185		424,795
Insurance premium revenue					208,385
Total operating revenues	6,136,565	1,139,185	7,275,750		633,180
Operating expenses:					
Cost of sales and services	3,164,726	920,493	4,085,219		366,295
Administration	561,573	57,982	619,555		46,986
Insurance premium					208,738
External and interfund taxes	814,088	142,219	956,307		
Depreciation expense	1,660,365	26,260	1,686,625		
Total operating expenses	6,200,752	1,146,954	7,347,706		622,019
Operating income (Loss)	(64,187)	(7,769)	(71,956)		11,161
Nonoperating revenues (expenses):					
Other income	9,222		9,222		13,077
Investment earnings	303,527	7,217	310,744		12,019
Interest expense and other debt service costs	(398,157)		(398,157)		
Amortization of bond discount	(1,157)		(1,157)		
Gain on sale of capital assets					10,121
Total nonoperating revenue (expenses)	(86,565)	7,217	(79,348)		35,217
Income before contributions and transfers	(150,752)	(552)	(151,304)		46,378
Capital contributions - system development charges					
System development fees -water	5,933,920		5,933,920		
System development fees -sewer	2,794,673		2,794,673		
Transfers in					
Transfers out					
Change in net assets	8,577,841	(251,841)	(251,841)		46,378
Total net assets - beginning	42,157,847	1,566,050	43,723,897		870,903
Total net assets - ending	\$ 50,735,688	\$ 1,313,657	\$ 52,049,345		\$ 917,281

The notes to the financial statements are an integral part of this statement.

City of Bonney Lake
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004
(amounts expressed in dollars)

	Business-type Activities - Enterprise Funds			
	Water and Sewer	Nonmajor Enterprise Funds	Total	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 6,136,565	\$ 1,280,821	\$ 7,417,386	\$ 633,180
Receipts from interfund services provided	(746,825)	(30,253)	(777,078)	-7,474
Payments for interfund services provided	(407,891)	(69,461)	(477,352)	
Payments for interfund taxes	(406,396)	(72,757)	(479,153)	
Payments for external taxes	(1,530,337)	(888,422)	(2,418,759)	-560,714
Payments to suppliers	(1,417,027)	(171,094)	(1,588,121)	-62,290
Payments to employees	1,628,289	48,834	1,677,123	12,702
Net cash provided by operating activities	<u>9,222</u>	<u>(251,841)</u>	<u>(242,619)</u>	<u>13,077</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Other non-operating revenues	9,222	(251,841)	(242,619)	13,077
Transfers to other funds	9,222	(251,841)	(242,619)	13,077
Net cash provided by noncapital and related financing activities				
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Receipt of public works trust fund loans	2,000,000		2,000,000	
Proceeds from system development charges (tap fees)	8,728,593		8,728,593	
Proceeds from sales of capital assets	(8,051,052)		(8,051,052)	10,121
Purchases or construction of capital assets	(893,664)		(893,664)	
Principal paid on capital debt	(398,157)		(398,157)	
Interest paid on capital debt	1,385,720		1,385,720	10,121
Net cash provided by capital and related financing activities	<u>303,527</u>	<u>7,217</u>	<u>310,744</u>	<u>12,019</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends received	303,527	7,217	310,744	12,019
Net cash from investing activities	<u>303,527</u>	<u>7,217</u>	<u>310,744</u>	<u>12,019</u>
Net increase in cash and cash equivalents	3,326,758	(195,790)	3,130,968	47,919
Cash and cash equivalents - January 1	20,780,068	533,118	21,313,186	874,343
Cash and cash equivalents - December 31	<u>\$ 24,106,826</u>	<u>\$ 337,328</u>	<u>\$ 24,444,154</u>	<u>\$ 922,262</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	(64,187)	(7,769)	(71,956)	11,161
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	1,660,365	26,260	1,686,625	
Amortization expense	1,157		1,157	
Decrease (increase) in accounts receivable	(208,358)		(208,358)	
Transfer of accounts receivable to the General Fund	144,067	(20,406)	(123,641)	
Decrease in other current assets	283	283	566	
Increase (decrease) in accounts payable	(90,970)	(94,495)	(185,465)	1,542
Increase (decrease) in deposits payable	367,887	892	368,779	
(Decrease) in accrued interest payable	(37,605)		(37,605)	
Total adjustments	<u>1,692,476</u>	<u>56,601</u>	<u>1,749,077</u>	<u>1,542</u>
Net cash provided by operating activities	<u>\$ 1,628,289</u>	<u>\$ 48,832</u>	<u>\$ 1,677,121</u>	<u>\$ 12,703</u>
Noncash investing, capital, and financing activities:				
There were no noncash investing, capital, and financing activities during this period.				

The notes to the financial statements are an integral part of this statement.

City of Bonney Lake
Statement of Fiduciary Net Assets
Agency Funds
December 31, 2004
(amounts expressed in dollars)

	<u>Agency Total</u>
ASSETS	
Cash and cash equivalents	\$ 682,181
Accounts receivable	<u>265,955</u>
Total assets	<u><u>948,136</u></u>
LIABILITIES	
Accounts payable	37,152
Fiduciary payable	<u>910,984</u>
Total liabilities	<u><u>948,136</u></u>
NET ASSETS	<u><u>\$ 0</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF BONNEY LAKE
Notes to the Financial Statements
December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Bonney Lake have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

The City of Bonney Lake, organized as a non-chartered code city, was incorporated in 1949 utilizing the Mayor-Council form of government. The City's executive branch authority resides in an elected Mayor who administers the City. The City's legislative authority, the City Council, consists of seven Council members who are elected to overlapping four-year terms. The Council is responsible for assuring citizen representation through policy direction and adoption of local codes and legislation.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to a specific function or segment. Program revenues include 1) Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and; 2) Grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

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

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

- The General Fund is the City's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Municipal Capital Improvement fund accounts for the receipts and expenditures of real estate excise taxes authorized by State law. These taxes are specifically dedicated to finance capital projects of the City.

The City reports the following major proprietary fund:

- The Water and Sewer Fund account for the activities of the City. The City operated a water distribution system. In addition, the City has capacity agreement with the City of Sumner, who operates the sewer treatment plant. The City operates its sewage pumping stations and collection systems.

The City reports the following fund types as non-major funds:

Special Revenue Funds are to be used to account for the proceeds of revenue and sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds account for the accumulation of resources for the payment of general obligation and assessment bond principal, interest and related costs.

Capital Project Funds account for the acquisition or construction of major capital facilities with the exception those facilities financed by the proprietary and trust funds. The major sources of revenue for this fund are general obligation bond proceeds, grants from other agencies, local taxes and contributions from other funds.

Finally, the City reports the following fund types:

Internal service funds account for fleet management services and insurance provided to other departments of the government on a cost reimbursement basis.

Fiduciary Funds account for funds the City holds for City contractors (retainage) and private developers for funds on deposit with the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) Charges to customers; 2) Operating grants and contributions; and 3) Capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and

delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund are water distribution and sewage collection. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Budgetary Information

1. Scope of Budget

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end.

The appropriated budget is prepared by fund and department. Transfers of appropriations within a fund require the approval of the Mayor. The legal level of budgetary control (for example, the level at which expenditures may not legally exceed appropriations) is the fund level. During 2004, no supplemental budgetary appropriations were made.

E. Assets, Liabilities and Equities

1. Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. At December 31, 2004, the Treasurer was holding \$33,630,847 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during 2004 were approximately \$1,787,715.

For purposes of the statement of cash flows, the City considers all highly liquid investments including restricted assets with a maturity of three months or less when purchased to be cash equivalents.

2. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Property Taxes Note No 5.).

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2004, no delinquent special assessments receivable were delinquent.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open accounts from private individuals or organizations for goods and services rendered.

3. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. A comparison to market value is not considered necessary. Inventories in proprietary funds are valued by the last in first out (LIFO) method (which approximates the market value).

4. Restricted Assets and Liabilities

These accounts contain resources for construction and debt service. The current portion of related liabilities is shown as *Payables from Restricted Assets*. Specific debt service reserve requirements are described in Note 9 (Long-Term Debt and Leases Note No 9.).

The restricted assets of the enterprise funds are composed of the following:

Cash and Investments - Deposits	\$ 552,351
Cash and Investments - Debt Service or Construction	\$1,660,117

5. Capital Assets See Note 6 (Capital Assets Note No 6.)

Capital assets are reported in the applicable governmental or business-type columns in the government-wide financial statements. Common types of capital assets include property, plant, equipment, infrastructure such as roads, bridges, sidewalks, and intangible assets such as sewer capacity and water rights. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of 3 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The City included governmental infrastructure constructed or acquired

during the current year. Under the requirements of GASB 34, the City has until 2008 to record the remainder of its infrastructure assets. Interest incurred during the construction phase of the capital assets of business-type activities is not included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government are depreciated using a combination of group depreciation and straight line method over the following estimated useful lives:

ASSETS	YEARS
Office Furniture	10
Computer Equipment	4-5
Machinery & Equipment	5-50
Other Improvements	30-40
Buildings & Structures	45-50
Infrastructure	30-60
Intangible Assets	20

6. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

Vacation pay may be accumulated up to a maximum of 45 days. A maximum payable upon resignation, retirement or death is 30 days.

In accordance with the provisions of GASB No. 16, Accounting for “Compensated Absences,” no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as “terminal leave” prior to retirement. Accrued vacation is payable upon resignation, retirement, or death. Sick leave may accumulate up to a maximum of 960 hours. Up to 25% of accumulated sick leave is payable upon resignation, retirement, or death for Police Department employees. After 5 years employment, up to 25% of accumulated sick leave is payable upon resignation, retirement, or death for other employees.

7. Deposits Payable - Restricted

This account includes amounts received by the City, but not recognized as receivables, but not revenues in governmental funds because the revenue recognition criteria have not been met.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets

The governmental funds' balance sheet includes reconciliation between fund balance – total governmental funds and net assets—governmental activities as reported in the government-wide statement of net assets.

B. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental funds' statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 4 - DEPOSITS AND INVESTMENTS

DEPOSITS

The City's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

As of December 31, 2004, the City had the following investment:

Investment Type	Fair Value	Weighted Average Maturity Days
State Treasurer's Local Government Investment Pool	\$33,630,847	34 days

Investments for the government are reported at fair value. The reported value of the pool is the same as the fair value of the pool shares.

Interest rate risk. In accordance with its investment policy, the government manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio. Currently, the City's investment policy does not address interest rate risk.

Custodial credit risk. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. During 2004, the City did not have any custodial credit risk because all investments were held by the State Treasurer in the Local Government Investment Pool.

NOTE 5 - PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities.

Property Tax Calendar	
January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100% of market value.
October 31	Second installment is due.

Property taxes are recorded as a receivable and revenue when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenue and recognized as revenue of the period to which they apply. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The City may levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services. This amount does not include voter approved special levy for payment of debt on the Public Safety Building. Because the City belongs to the local fire district and library district, according to law the local fire district's levy and the library district's levy must be subtracted from the City's levy. Since these districts are currently levying their maximum amounts, the local levy can be no higher than \$1.60 per \$1,000. (\$3.60 less \$1.50 for the fire district and less \$.50 for the library district = \$1.60.)

The Washington State Constitution and Washington State Law RCW 84.55.010 limit the rate.

For 2004, the City levied the following property taxes on an assessed value of \$1.027 billion. The special levy identified in the table below was approved by the voters and is not subject to the limitations listed above.

Purpose of Levy	Levy Rate per \$1,000	Total Levy Amount
General Government	1.5871	\$1,631,458
Debt service for Public Safety Building	.3515	361,294
Total	1.9386	\$1,992,752

NOTE 6 – CAPITAL ASSETS

A. Capital Assets

Capital assets activity for the year ended December 31, 2004 was as follows:

Governmental Activities	Beginning Balance 01/01/04	Increases	Decreases	Ending Balance 12/31/04
Capital assets, not being depreciated:				
Land	\$647,604	\$2,685,544		\$3,333,148
Construction in progress				
Total capital assets, not being depreciated	647,604	2,685,544		3,333,148
Capital assets, being depreciated:				
Buildings	4,307,432			4,307,432
Improvements other than buildings	693,161			693,161
Machinery and equipment	1,982,364	103,152		2,085,516
Infrastructure	1,507,040	204,021		1,711,061
Total capital assets being depreciated	8,489,997	307,173		8,797,170
Less accumulated depreciation for:				
Buildings	(1,938,344)	(107,686)		(2,046,030)
Improvements other than buildings	(284,196)	(17,329)		(301,525)
Machinery and equipment	(298,032)	(208,552)		(506,584)
Infrastructure	(85,901)	(34,221)		(120,122)
Total accumulated depreciation	(2,606,473)	(367,788)		(2,974,261)
Total capital assets, being depreciated, net	5,883,524	(60,615)		5,822,909
Governmental activities capital assets, net	\$6,531,128	\$2,624,929		\$9,156,057

Business-Type Activities:	Beginning Balance 01/01/04	Increases	Decreases	Ending Balance 12/31/04
Capital assets, not being depreciated:				
Land	\$490,813			\$490,813
Construction in progress	4,196,535	\$10,692,650	\$10,753,024	4,136,161
Total capital assets, not being depreciated	4,687,348	10,692,650	10,753,024	4,626,974
Capital assets, being depreciated:				
Buildings	291,746			291,746
Improvements other than buildings	47,469,811	758,998		48,228,809
Machinery and equipment	2,812,042	238,132	283	3,049,891
Intangible assets		8,697,235		8,697,235
Total capital assets being depreciated	50,573,599	9,694,365	283	60,267,681
Less accumulated depreciation for:				
Buildings	(111,151)	(7,719)		(118,870)
Improvements other than Buildings	(13,513,114)	(1,107,987)		(14,621,101)
Machinery and equipment	(1,746,243)	(136,058)		(1,882,301)
Intangible assets		(434,861)		(434,861)
Total accumulated depreciation	(15,370,508)	(1,686,625)		(17,057,133)
Total capital assets, being depreciated, net	35,203,091	8,007,740	283	43,210,548
Business-type activities capital assets, net	\$39,890,439	\$18,700,390	\$10,753,307	\$47,837,522

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

Functions/Programs	Amount
General government	\$230,232
Public safety	55,476
Transportation	43,727
Physical environment	5,925
Economic environment	4,836
Culture and recreation	27,592
Total Depreciation – Governmental Activities	\$367,788
Business-Type Activities	
Water/Sewer	\$1,660,365
Stormwater	26,260
Total Depreciation – Business-Type Activities	\$1,686,625

The City has active construction projects as of December 31, 2004. The projects include improvements to its existing water distribution system, purchase of additional water capacity from the City of Tacoma, construction of additional sewer capacity with the City of Sumner; and acquiring various parcels of land for City Parks. During 2004, the City received authorization for \$10,000,000 in additional Public Works Trust Fund loans of which it has received draws of \$2,000,000. The City has commitments to spend these funds as well for improvements to water and sewer systems under existing contracts. At year-end the City's commitments are as follows:

Capital Projects	Spent-to-Date	Remaining Commitment
Water Projects		
Ballpark Well Treatment Facility/Mains	\$2,166,550	\$2,000,000
Telemetry/SCADA Continued Upgrade	139,139	100,000
Pressure Relief Lakeridge 800 Zone	45,537	40,000
At-Grade Storage Tank	368,735	5,000,000
Replacement of oldest and key water mains	199,591	2,500,000
New Water Source (Tacoma)	617,566	12,000,000
Leak Detection Program	0	45,000
Meter Replacement Program	0	40,000
PW Yard Expansion/Security Improvements	0	100,000
S Prairie Rd Water Main Construction	0	50,000
Total	3,537,118	21,875,000
Sewer Project		
Purchase of Sewer Capacity (Upgrade Sumner WWTP)	8,079,670	3,000,000
Total	8,079,670	3,000,000
Street/Stormwater Projects		
Chip Seal		100,000
SR410/South Prairie Road (match)	64,020	600,000
Sidewalk Program		75,000
Total	64,020	775,000
Municipal Capital Project		
Facilities Improvements	0	25,000
	0	25,000
Totals	\$11,680,808	\$25,675,000

The improvements to the water system are being funded by Public Works Trust Fund Loans, notes to the City of Tacoma, system development fees, and its own funds. The notes to the City of Tacoma are secured by water revenues. The upgrade to the City of Sumner's wastewater treatment plant is being funded by a Public Works Trust Fund Loan. The Public Works Trust Fund loan is secured by sewer revenues. The Streets/Stormwater Projects are being funded by a grant, and the City's own funds. The facilities improvements in the Municipal Capital Project are being funded by General Fund monies and Real Estate Excise taxes.

NOTE 7 - 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 Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers.

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

Plan Descriptions

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20

years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,168 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2003:

Membership	Number
Retirees and Beneficiaries Receiving Benefits	65,362
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	20,001
Active Plan Members Vested	100,469
Active Plan Members Nonvested	54,081
Total	239,913

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2004, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	1.38%	1.38%	1.38%**
Employee	6.00%	1.18%	***

* The employer rates include the employer administrative expense fee currently set at 0.19%.

** Plan 3 defined benefit portion only.

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

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3
2004	\$ 4,551	\$ 35,029	\$ 2,486
2003	\$ 4,230	\$ 32,083	
2002	\$ 5,110	\$ 37,476	

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

Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF is comprised primarily of non-state employees, with the exception of the Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established to provide governance of LEOFF Plan 2. The Board’s duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan. Effective January 1, 2003 firefighter emergency medical technicians (EMTs) may transfer PERS Plan 1 or Plan 2 service credit to LEOFF Plan 2 if while employed for the City, town, county or district, the EMT’s job was relocated to a fire department from another city, town, county or district. LEOFF defined benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature. Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary is as follows:

Term of Service	Percent of Final Average Salary
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

There are 368 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2003:

Membership	Number
Retirees and Beneficiaries Receiving Benefits	8,370
Terminated Plan Members Entitled To But Not Yet Receiving	453
Active Plan Members Vested	11,548
Active Plan Members Nonvested	4,003
Total	24,374

Funding Policy

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with Chapter 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2004, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.19%	3.25%**
Employee	0.00%	5.09%
State	n/a	2.03%

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

	LEOFF Plan 1	LEOFF Plan 2
2004	\$0	\$ 46,394
2003	\$ 4,923	\$ 45,052
2002	\$ 4,560	\$ 41,046

Local Governments Pension And Other Employee Benefit Trust Funds

Other Retirement Systems – Volunteer Fire Fighters’ Relief and Pension Fund

The Volunteer Fire Fighters’ Relief and Pension Fund System is a cost-sharing multiple-employer retirement system which was created by the Legislature in 1945 under Chapter 41.24 RCW. It provides pension, disability and survivor benefits. Membership in the system requires service with a fire department of an electing municipality of Washington state except those covered by LEOFF. The system is funded through member contributions of \$30 per year; 40 percent of the Fire Insurance Premium Tax; and earnings from the investment of moneys of the Washington State Investment Board. However, members may elect to withdraw their contributions upon termination.

NOTE 8 - RISK MANAGEMENT

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 110 members. WCIA annual financial report may be obtained by writing to: Washington Cities Insurance Authority, P.O. Box 88030, Tukwila, WA 98138.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police professional, public officials’ errors or omissions, stop gap, and employee benefits liability. Limits are \$3 million per occurrence in the primary layer, \$11 million per occurrence in the re-insured excess layer with no annual aggregate except \$10 million per member for public officials’ errors and omissions. The excess layer is insured by the purchase of reinsurance and insurance. Total limits are \$14 million per occurrence. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members’ deductible to

\$500,000 for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services. Settlements have not exceeded coverage for each of the past three fiscal years.

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

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.

NOTE 9 - LONG-TERM DEBT AND LEASES

A. Long-Term Debt

In 1997, the City refunded its 1992 General Obligation Bonds in the authorized amount of \$2,865,000. The 1992 General Obligation Bonds were originally issued to construct the Public Safety Building. In 1998, the City refunded its 1988 revenue bonds issued to construct various projects for the water system in the authorized amount of \$1,335,000. In 1999, the City issued revenue bonds to finance the construction of various projects for the water distribution system in the authorized amount of \$6,035,000. Bonded indebtedness has also been entered into (currently and in prior years) to advance refunding of several general obligation bonds. General obligation bonds have been issued for general government activities and are being repaid from the applicable resources. The revenue bonds are being repaid by proprietary fund revenues.

The general obligation refunding bonds currently outstanding are as follows:

Purpose	Interest	Amount
1997 Public Safety Facility	4.1 – 5.25%	\$2,065,000
Total		\$2,065,000

General obligation refunding bond debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2005	\$250,000	\$104,687
2006	270,000	92,563
2007	285,000	79,197
2008	290,000	64,805
2009	305,000	50,305
2010 to 2011	665,000	52,600
Total	\$2,065,000	\$444,157

In addition, the City has a Public Works Trust Fund loan used for the Streets Fund transportation plan. The Public Works Trust Fund Loan currently outstanding is as follows:

Purpose	Interest	Amount
PW-01-691-PWP-201	0%	\$16,200
Total		\$16,200

Public Works Trust Fund Loan bond debt service requirements to maturity are as follows:

Year Ending December 31	Principal
2005	\$5,400
2006	5,400
2007	5,400
Total	\$16,200

The City's 1998 Water/Sewer Refunding Bond paid and redeemed the City's Outstanding 1992 Water and Sewer Revenue Bonds and paid part of the costs of certain additions to, and extensions of the Sewer System. The City's 1999 Water/Sewer Revenue Bond paid for and is paying for capital improvements to either the water system or the sewer system consisting of: (a) Construction of a public works building; (b) Various water mains; (c) Various valve, intertie and other improvements; and (d) Wastewater treatment plant upgrades. This bond is subject to arbitrage requirements. The revenue refunding bonds and revenue bonds currently outstanding are as follows:

Purpose	Interest	Amount
1998 Revenue Refunding Bonds	4.1 – 5.2%	\$1,010,000
1999 Water/Sewer Revenue Bonds	4.0 – 5.75%	5,025,000
Total		\$6,035,000

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	1998 Principal	1998 Interest	1999 Principal	1999 Interest
2005	\$60,000	\$51,752	\$230,000	\$272,120
2006	60,000	48,932	240,000	261,195
2007	65,000	46,082	255,000	249,555
2008	65,000	42,962	265,000	236,933
2009	70,000	39,810	280,000	223,683
2010 to 2014	405,000	142,382	1,625,000	885,144
2015 to 2019	285,000	30,495	2,130,000	381,226
Total	\$1,010,000	\$402,415	\$5,025,000	\$2,509,856

The City received low interest loans from the Washington State Public Works Board primarily for the improvement to the local water system or to purchase capacity in the City of Sumner's expansion of its wastewater treatment plant. In addition it received a loan from the Washington State Department of Ecology for a plan. The loans currently outstanding are as follows:

Purpose	Interest	Amount
PW-5-87-962-030	1%	\$ 52,330
PW-5-96-791-004	3%	792,684
PW-97-791-017	1%	656,085
PW-98-791-006	1%	209,933
PW-98-78898-07	4.35%	224,616
PW-98-78898-08	4.35%	564,860
PW-00-691-008	1%	612,903
DOE Loan (#L9900035)	0%	14,155
PW-02-691-006	.5%	6,647,850
PW-03-691-006	.5%	528,615
PW-04-691-007	.5%	421,800
PW-04-691-008	.5%	675,000
PW-04-691-009	.5%	903,200
Total		\$12,304,031

The various proprietary loan service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2005	\$646,486	\$119,317
2006	747,030	111,848
2007	742,312	103,853
2008	724,868	95,858
2009	724,868	88,037
2010 to 2014	3,624,342	322,870
2015 to 2019	3,310,240	133,796
2020 to 2024	1,783,885	20,860
Total	\$12,304,031	\$996,439

In proprietary funds, unamortized debt issue costs are recorded as deferred charges and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount. At December 31, 2004 the City has \$98,580 available in debt service funds to service the general bonded refunding debt. Restricted assets in proprietary funds contain \$1,546,922 in sinking funds and reserves as required by bond indentures.

B. Changes in Long-Term Liabilities

During the year ended December 31, 2004, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/04	Additions	Reductions	Ending Balance 12/31/04	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation refunding bonds	\$2,310,000		\$ 245,000	\$2,065,000	\$250,000
Installment Contracts:					
Rental House	5,426		5,426	0	0
PWTF Loan (PW-01-691-PWP-201)	21,600		5,400	16,200	5,400
LID 11 – Sewer	55,000		55,000	0	0
Compensated absences	340,427			340,427	
Governmental activity long-term	2,732,453		310,826	2,421,627	255,400
Business-Type Activities:					
Bonds payable:					
Refunding bonds	1,065,000		55,000	1,010,000	60,000
(Unamortized Discount on Ref Bond)	(18,343)	1,157		(17,186)	
Revenue bonds	5,245,000		220,000	5,025,000	230,000
Public Works Trust Fund Loans	10,922,694	2,000,000	618,664	12,304,030	646,486
Compensated absences	132,750	766	1,533	131,983	0
Business-type activity long-term liabilities:	\$17,347,101	\$2,001,923	\$895,197	\$18,453,827	\$936,486

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end \$219 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund or Street Fund.

C. Segment information

The City has obtained 13 Public Works Trust Fund Loans. Eleven (11) of the thirteen (13) loans are payable out of water revenue. The remaining two loans are payable out of sewer revenues. In addition, the City has issued one revenue bond to finance its sewer department, which should be paid out of sewer revenue. Finally, the City has issued one revenue bond which may be paid for with either water or sewer revenue. Both the water and sewer are accounted for in a single fund. However, since revenue bonds and loans rely solely on the revenue generated by the individual activities for repayment, the City has chosen to present segment information for those investors.

Summary financial information for the water and the sewer department is presented below.

CONDENSED STATEMENT OF NET ASSETS		
	Water	Sewer
Assets		
Current assets	\$15,626,434	\$7,512,221
Restricted assets	1,546,922	113,195
Capital assets	21,087,660	25,786,223
Total assets	38,261,016	33,411,639
Liabilities		
Current liabilities	2,600,809	818,817
Non-current liabilities	9,870,706	7,646,634
Total liabilities	12,471,515	8,465,451
Net assets:		
Invested in capital assets, net of related debt	10,828,280	17,723,761
Restricted	10,193,390	4,546,518
Unrestricted	\$4,767,831	\$2,675,909
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Charges for sales and service	\$3,573,804	\$2,562,761
Depreciation expense	(495,079)	(1,165,286)
Other operating expense	(2,642,688)	(1,897,699)
Operating income	436,037	(500,224)
Non-operating revenues (expenses)		
Investment earnings	147,834	155,693
Interest expense	(348,002)	(51,312)
Other income	9,222	
Capital contributions	5,933,920	2,794,673
Change in net assets	6,179,011	2,398,830
Beginning net assets	19,634,082	22,523,765
Ending net assets	\$25,813,093	\$24,922,595
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used by):		
Operating activities	\$687,269	\$941,020
Noncapital financing	9,222	
Capital and related financing activities	4,822,454	(3,436,734)
Investing activities	147,834	155,693
Net increase (decrease)	5,666,779	(2,340,021)
Beginning net cash and cash equivalents	11,014,242	9,765,826
Ending net cash and cash equivalents	\$16,681,021	\$7,425,805

NOTE 10 - CONTINGENCIES AND LITIGATIONS

The City of Bonney Lake condemned a little over 12 acres of property belonging to the Schuur Brothers for public purposes. The City has paid \$1,950,000 to obtain exclusive use of the property and final value will be determined during mediation or at a jury trial in July 2005 if the parties do not settle on the final price. The City does not know what the final price of this property will be. The City also has a suit pending for alleged harassment in which the City is represented by the Washington Cities Insurance Authority. In the opinion of management, losses if any could be covered by the City’s insurance pool, or by fund reserves which is adequate to pay all known or pending claims, if any.

As discussed in Note 9 (Long-Term Debt and Lease Note No.9), the City is contingently liable for repayment of refunded debt.

The City participates in a number of federal and state-assisted 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. Other than the instances described above, City management believes that such disallowances, if any, will be immaterial.

Finally, the City is committed to spending the remaining unspent proceeds (\$1.546 Million) of the 1999 Water and Sewer Revenue bond.

NOTE 11 INTERFUND TRANSFERS

Interfund transfers during 2004 were as follows:

		Transfer from					
		General Fund 001	Contingency Fund 126	Traffic Mitigation Fund 135	Municipal Capital Improvement Fund 304	Solid Waste Fund 420	Total
Transfer to	General Fund	\$	\$50,000	\$	\$228,864	\$251,84	\$530,705
	Street Fund 101	351,841		340,000	150,000	1	841,841
	Municipal Capital Improvement 304	1,000,000					1,000,000
	Public Safety Maintenance Fund 306	48,000					48,000
	Total	\$1,399,841	\$50,000	\$340,000	\$378,864	\$251,841	\$2,420,546

Transfers were used to: 1) Pay for the study and design for a park at the tank site, and pay for the “Bonney Lake Welcomes” sign at Ascent Park; 2) Pay for concession stand improvements, a new floating boat dock for Parks, and new automatic door and flooring in the Senior Center; 3) Transfer of remaining funds of the Solid Waste Fund after the service was discontinued by the City; 4) Bring the fund into a positive cash balance, to pay for chip seal program and a snow plow

for the new dump truck; 5) Pay for land acquired for a park; and 6) Pay for building maintenance of the Public Safety Building in accordance with budgetary authorizations.

NOTE 12 – RECEIVABLE AND PAYABLE BALANCES

A. Receivables

Receivables at December 31, 2004 were as follows:

	Accounts	Taxes	Special Assessments	Total
General Fund	\$55,220	\$536,172	\$	\$591,392
Street Fund	9,557	47,540		57,097
1997 GO Refunding Bond		2,420		2,420
LID 11 Special Assessments			15,332	15,332
LID 12 Special Assessments			15,286	15,286
Municipal Capital Improvement		58,636		58,636
Total Governmental Activities	\$64,777	\$644,768	\$30,618	\$740,163
Amounts not scheduled for collection during the subsequent	0	0	10,194	10,194
Water/Sewer	\$872,121			\$872,121
Stormwater	30,384			30,384
Total Business-Type activities	\$902,505			\$902,505

B. Payables

Payables at December 31, 2004 were as follows:

	Accounts Payable	Due to Other Governmental Units	Custodial Accounts – restricted	Deposits payable – restricted	Total
General Fund	\$162,053	\$14,910	\$12,607	\$407,884	\$597,454
Street Fund	18,710				18,710
Drug Investigation Fund	642				642
Eden System Upgrade	716				716
Municipal Capital Improvement Fund	5,488				5,488
Public Safety Maintenance and CIP	1,132				1,132
Equipment Rental	4,764				4,764
Total Governmental activities	\$193,504	\$14,910	\$12,607	\$407,884	\$628,905
Water and Sewer Fund	\$1,942,618			\$404,456	\$2,347,074
Wastewater Fund	2,250			15,446	17,696
Total business-type activities	\$1,944,868			\$419,902	\$2,364,770

NOTE 13 – LAW ENFORCEMENT EMPLOYEE OPEB PLAN

The City provides other post employment benefits (OPEB) for one retired law enforcement employee. This is the only current or former employee that is entitled to post employment benefits now or in the future. The City provides health benefits to this eligible retired police employee. The City purchased the health insurance from the United Benefit Trust. The retired law enforcement employee received a benefit contribution of \$2,136 per month, or \$25,632 a year, for retiree-only coverage. The City is required to contribute the premium established by the United Benefit Trust. This OPEB has not been advance funded, and is being paid with current year's revenue.