

Washington State Auditor's Office
Financial Statements Audit Report

City of Bonney Lake
Pierce County

Audit Period
January 1, 2010 through December 31, 2010

Report No. 1008054

Issue Date
July 23, 2012



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

July 23, 2012

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.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Pierce County
January 1, 2010 through December 31, 2010**

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Schedule of Audit Findings and Responses

City of Bonney Lake Pierce County January 1, 2010 through December 31, 2010

1. **The City's internal controls are inadequate to ensure timely and accurate accounting and financial reporting.**

Description of Condition

It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified the following deficiencies in internal controls that adversely affect the City's ability to produce reliable and timely financial statements:

- The City hired a contractor to prepare the City's financial statements. City personnel did not adequately review the prepared statements for accuracy and as a result did not identify multiple errors. The 2010 statements were not available for audit until December of 2011.
- The City lacks a process to ensure the cash and investment account balances held by financial institutions are correctly reconciled to the general ledger.

Cause of Condition

The City reports its financial statements in accordance with Government Accepted Accounting Principles. These statements require special expertise and more time to prepare than other types of financial statements. City Management did not dedicate the necessary resources, such as staff time and training, to ensure accurate and timely financial reporting.

Effect of Condition

The City's financial statements, notes and the management discussion and analysis contained numerous errors. This resulted in the City submitting four versions of the financial statements for audit. The City corrected the errors.

We also noted the City over-reported cash balances in the 2010 financial statements in all funds by a total of \$725,179.

Delayed and inaccurate financial reports limit access to financial information used by City officials, the public, state and federal agencies and other interested parties. In addition, it delayed the audit process and increased the audit costs.

Recommendation

We recommend City management dedicate the necessary resources and training to establish internal controls to:

- Provide adequate oversight of the financial statement and notes to ensure accurate and timely reporting.
- Establish procedures to perform monthly reconciliations of bank statements to its general ledger.

City's Response

The City hired a third party contractor to prepare the 2010 financial statements, in part, because our Accounting Manager was scheduled to be out on maternity leave during this critical time. Upon returning from maternity leave, our Accounting Manager commenced review of the 2010 financial statement and resumed other day to day accounting tasks. Considerable City resources were expended reviewing the 2010 financial statements; however, as the SAO has pointed out, errors did go undetected. During our audit engagement, as the SAO identified errors, City staff diligently performed the adjustments in order to ensure timely booking of the corrections. Subsequently, four versions of the financial statements were in fact submitted for audit. Workload issues in addition to financial statement review subsequently delayed submittal of the city's 2010 financial statements until December 2011.

In order to mitigate our workload issue involving timeliness of reporting, the City has prepared a detailed schedule of all tasks required to complete and submit accurate financial statements pursuant to RCW. Our detailed schedule establishes a bi-weekly status review in which our Accounting Manager and Finance Director meet to discuss progress, reporting accuracy and timeliness. Additionally we have undergone training in specific financial statement areas that have proven to be more challenging for the city; i.e. Government Wide Statements and Statements of Cash Flows.

The City has established and implemented strong controls to reconcile cash and investments on a daily basis. These controls will be reviewed with our SAO audit team during our next audit engagement. All cash reconciliation issues that have been identified by the State Auditor's Office are historical in nature and occurred in prior periods. The city has devoted considerable staff time to reconcile prior period cash transactions that have led to this over-reporting issue. We fully anticipate that all our historical issues will have been identified by fiscal year end 2011 and accordingly booked as a prior period adjustment.

Auditor's Remarks

We appreciate the City's commitment to resolving this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class. The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for

account of the public for any purpose whatever, and by all public officers, employees, and other persons.

The accounts shall show the receipt, use, and disposition of all public funds properly, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Government Auditing Standards, July 2007 Revision, Section 5.11 states in part:

For all financial audits, auditors should report the following deficiencies in internal control:

- a. Significant deficiency: a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.
- b. Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

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, 2010 through December 31, 2010**

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, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 9, 2012.

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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Responses as Finding 1, that we consider to be significant deficiencies in internal

control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

The City's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. We did not audit the City's response and, accordingly, we express no opinion on it.

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.



BRIAN SONNTAG, CGFM
STATE AUDITOR

March 9, 2012

Independent Auditor's Report on Financial Statements

**City of Bonney Lake
Pierce County
January 1, 2010 through December 31, 2010**

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, 2010, which collectively comprise the City's basic financial statements as listed on page 8. 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, 2010, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 20 be presented to supplement the

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

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

March 9, 2012

Financial Section

**City of Bonney Lake
Pierce County
January 1, 2010 through December 31, 2010**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2010

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2010

Statement of Activities – 2010

Balance Sheet – Governmental Funds – 2010

Reconciliation of Governmental Fund to Net Assets of Governmental Activities – 2010

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2010

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2010

Statement of Revenues, Expenditures and Changes in Fund Balances, Budget (GAAP Basis) and Actual – General Fund – 2010

Statement of Net Assets – Proprietary Funds – 2010

Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds – 2010

Statement of Cash Flows – Proprietary Funds – 2010

Notes to Financial Statements – 2010

**City of Bonney Lake
Management's Discussion and Analysis
For the Year Ending December 31, 2010**

As management of the City of Bonney Lake (the City), we offer this narrative overview and analysis of the City's financial activities for the fiscal year ended December 31, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and the notes to the financial statements.

Financial Highlights

- As of December 31, 2010 total assets of the City exceeded its liabilities by approximately \$133.0 million. Of this amount, \$39.5 million was reported as unrestricted net assets, amounts which are available for use to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$5.08 million.
- Capital assets increased approximately \$6.8 million, largely due to the completion of a number of construction projects, as well as the beginning of the Justice Center.
- The City's governmental funds reported combined ending fund balances of \$15.8 million.
- The General Fund reported an unreserved fund balance of \$4.7 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of 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.

Government-wide financial statements

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

The *statement of net assets* presents information on all of the City'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 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 result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both the Statement of Net Assets and the Statement of Activities differentiate the functions of general

government from the functions of business-type activities. Governmental activities reflect the City's basic functions such as general government, public safety, highways and streets, economic development, and culture and recreation and are primarily supported by taxes and intergovernmental revenues. Business-type activities, primarily utilities, are intended to recover their costs through user fees and charges. The City's utilities include the water distribution system, the sewer collection and treatment system and the stormwater collection system.

The City has no separately identified component units and, accordingly, none are included in these financial statements.

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 can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 balances of 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 so doing, 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 maintains ten 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, the Street Construction Fund, the General Government Construction Fund, and the Civic Center Construction Fund which are all considered major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts a biennial appropriated budget for all of its funds. The basic financial statements include budgetary comparison statements for the General Fund to demonstrate compliance with this budget.

Proprietary funds

The City 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 uses enterprise funds to account for its Water, Sewer, and Stormwater Funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City 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, Sewer, and Stormwater Funds. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in 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.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's financial results. Combining and individual fund statements and schedules for the non-major governmental funds and the internal service funds can be found under this section.

The City as a Whole

The table below summarizes the City's Statement of Net Assets for the years 2010 and 2009.

CONDENSED STATEMENT OF NET ASSETS						
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 18,475,948	\$ 21,327,582	\$ 28,932,283	\$ 28,842,478	\$ 47,408,231	\$ 50,170,060
Capital assets, net of accum dep	45,278,917	38,980,016	85,234,816	84,740,925	130,513,733	123,720,941
TOTAL ASSETS	63,754,865	60,307,598	114,167,099	113,583,403	177,921,964	173,891,001
Long-term liabilities	11,271,142	12,154,983	25,645,466	25,388,362	36,916,608	37,543,345
Other liabilities	4,041,004	4,309,097	3,993,906	4,147,238	8,034,910	8,458,335
TOTAL LIABILITIES	15,312,146	16,464,080	29,639,372	29,535,600	44,951,518	45,999,680
NET ASSETS:						
Invested in capital assets, net of related debt	34,081,125	30,322,402	58,272,488	60,622,748	92,353,613	90,945,150
Restricted	167,654	3,704,996	998,001	998,001	1,165,655	4,702,997
Unrestricted	14,193,940	9,816,120	25,257,238	22,427,053	39,451,178	32,243,173
TOTAL NET ASSETS	\$ 48,442,719	\$ 43,843,518	\$ 84,527,727	\$ 84,047,802	\$ 132,970,446	\$ 127,891,320

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At year end 2010 assets exceeded liabilities by \$132.9 million.

The most significant portion of 2010 net assets, \$92.3 million or 69%, reflects the City's 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 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.

Restricted net assets, \$1.2 million or 1%, represents resources that are subject to external restrictions on how they may be used.

Unrestricted net assets, \$39.5 million or 30%, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the 2010 and 2009 fiscal years, the City reports 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 table below summarizes the City's Statement of Activities for the years 2010 and 2009.

Condensed Statement of Activities

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues						
Program revenues:						
Charges for services	\$ 4,049,053	\$ 1,811,223	\$ 13,135,753	\$ 11,203,718	\$ 17,184,806	\$ 13,014,941
Operating grants and contributions	977,829	356,917	43,149	2,315,511	1,020,978	2,672,428
Capital grants and contributions	649,108	323,351	-	36,892	649,108	360,243
General revenues:						
Property taxes	2,825,791	2,806,078	-	-	2,825,791	2,806,078
Sales taxes	3,363,304	3,119,185	-	-	3,363,304	3,119,185
B&O taxes	1,798,341	1,905,041	-	-	1,798,341	1,905,041
Excise taxes	870,838	927,333	-	-	870,838	927,333
Utility	870,819	911,551	-	-	870,819	911,551
Other taxes	71,704	107,652	-	-	71,704	107,652
Investment earnings	131,649	315,889	68,217	281,753	199,866	597,642
Miscellaneous revenues	103,812	75,135	28,307	31,554	132,119	106,689
Total revenues	15,712,248	12,659,355	13,275,426	13,869,428	28,987,674	26,528,783
Expenses						
General government	4,367,084	4,549,144	-	-	4,367,084	4,549,144
Public safety	5,233,944	4,919,554	-	-	5,233,944	4,919,554
Physical environment	272,676	739,134	-	-	272,676	739,134
Transportation	1,665,773	1,679,409	-	-	1,665,773	1,679,409
Health and human services	33,184	24,261	-	-	33,184	24,261
Economic environment	1,605,779	1,736,223	-	-	1,605,779	1,736,223
Culture and recreation	606,256	416,811	-	-	606,256	416,811
Interest on long term debt	519,149	588,996	-	-	519,149	588,996
Water	-	-	4,982,311	4,900,497	4,982,311	4,900,497
Sewer	-	-	4,045,897	4,081,458	4,045,897	4,081,458
Stormwater	-	-	768,293	705,671	768,293	705,671
Total expenses	14,303,845	14,653,532	9,796,501	9,687,626	24,100,346	24,341,158
Change in net assets before transfers	1,408,403	(1,994,177)	3,478,925	4,181,802	4,887,328	2,187,625
Transfers	2,999,000	-	(2,999,000)	-	-	-
Change in net assets	4,407,403	(1,994,177)	479,925	4,181,802	4,887,328	2,187,625
Net assets as of January 1	43,843,518	45,837,695	84,047,802	79,866,000	127,891,320	125,703,695
Prior period adjustments	191,798	-	-	-	191,798	-
Net assets as of December 31	\$ 48,442,719	\$ 43,843,518	\$ 84,527,727	\$ 84,047,802	\$ 132,970,446	\$ 127,891,320

In comparing "Change in net assets" in fiscal 2010 to fiscal 2009, increases in Governmental Activities are sufficient to mitigate the slight decrease (year over year) in Business type activities. As illustrated in the Total column, the most significant justification for this increase is reflected in the revenue line item titled "charges for services," which includes plan check and review fees as well as inspection fees. These fees are directly associated with building and construction activities within our community and thus may be construed as an economic indicator that the slowdown in construction activity may be waning. Further monitoring and analysis are required to substantiate this conclusion, however. The total (year over year) increase in "Change in net assets" is \$2,699,703 or 123%.

Additionally, a decrease in the revenue category "Operating grants and contributions" is down \$1,651,450 (61.7%) in fiscal 2010 as compared to 2009. The State of WA and other governmental entities are the sources of grant funding for the City and reductions to their respective budgets has a trickle down effect on the City of Bonney Lake.

Significant Transactions and Changes in Individual Funds

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

Governmental funds

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City'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.

The following table provides a summary of Revenues, Expenditures and Changes in Fund Balances for the General Fund.

General Fund

	2010	2009	Variance	% Change
Total revenues	\$ 12,254,400	\$ 11,990,211	\$ 264,189	2.2%
Total expenditures	(12,596,985)	(12,104,966)	(492,019)	4%
Total other financing sources and uses	-	-	-	#DIV/0!
Net changes in fund balance	<u>(342,584)</u>	<u>(114,755)</u>	<u>(227,829)</u>	<u>199%</u>
Fund balances, beginning of year	5,085,577	5,200,332	(114,755)	-2%
Prior period adjustment	-	-	-	-
Fund balances, end of year	<u>4,742,993</u>	<u>5,085,577</u>	<u>(342,584)</u>	<u>-6.74%</u>

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$4.7 million, a reduction of \$342,585 from fiscal 2009. Our legislative body and administration made a conscious decision to draw down some of the City's fund balance in order to meet new debt service payment requirements for the civic center and police 800 MHz radio system.

During fiscal 2010 the City recognized a slight up tick in total revenues although the national recession continued to have devastating effects on our local economy. Despite a healthy tax base our general fund and capital needs are great and resources are somewhat limited. We must continue to be very judicious in how we allocate scarce resources for a variety of needs. We need to be creative and pursue a full range of available funding sources. Development of our financial planning model will continue to prove very helpful in identifying our challenges and options in achieving our varied goals. Additionally, City leadership has implemented strategic resource/expenditure leveling efforts in order to weather the "new normal" in our economic climate.

The following table provides a summary of Revenues, Expenditures and Changes in Fund Balances for the Street Construction Fund.

Street Construction Fund

	<u>2010</u>	<u>2009</u>	<u>Variance</u>	<u>% Change</u>
Total revenues	\$ 1,719,877	\$ 860,092	\$ 859,785	100.0%
Total expenditures	(2,737,991)	(2,817,758)	79,767	-3%
Total other financing sources and uses	209,503	47,402	162,101	342%
Net changes in fund balance	<u>(808,611)</u>	<u>(1,910,264)</u>	<u>1,101,653</u>	<u>-58%</u>
Fund balances, beginning of year	5,417,591	7,327,855	(1,910,264)	-26%
Prior period adjustment	-	-	-	-
Fund balances, end of year	<u><u>4,608,980</u></u>	<u><u>5,417,591</u></u>	<u><u>(808,611)</u></u>	<u><u>-14.93%</u></u>

As is the case in any Capital Improvement Fund, activity from year to year is based upon an entity's capacity to sustain funding for future projects. Dedicated revenue sources in this particular fund flow into the City as a result of Real Estate Excise Taxes; and although robust through prior years, this source is slowing and continues to lag significantly compared to prior experience.

The category "other financing sources and uses" illustrates an aggregate summary of both uses and sources. Significant other sources result in the form of grants, loans, etc. that may have been received from other governmental agencies in support of the City's Street Construction activities.

The following table provides a summary of Revenues, Expenditures and Changes in Fund Balances for the General Government Construction Fund.

General Government Construction Fund

	<u>2010</u>	<u>2009</u>	<u>Variance</u>	<u>% Change</u>
Total revenues	\$ 64,898	\$ 175,217	\$ (110,319)	-63.0%
Total expenditures	(240,529)	(684,484)	443,955	-65%
Total other financing sources and uses	2,718,504	-	2,718,504	#DIV/0!
Net changes in fund balance	<u>2,542,873</u>	<u>(509,267)</u>	<u>3,052,140</u>	<u>-599%</u>
Fund balances, beginning of year	2,354,858	2,864,125	(509,267)	-18%
Prior period adjustment	-	-	-	-
Fund balances, end of year	<u><u>4,897,731</u></u>	<u><u>2,354,858</u></u>	<u><u>2,542,873</u></u>	<u><u>107.98%</u></u>

As previously discussed, any Capital Improvement Fund's activity from year to year is based upon an entity's capacity to sustain funding for future projects. Dedicated revenue sources in this particular fund continue their inflow although not as robust as prior years. Conversely, expenditure experience is closely associated with the inflow of resources and therefore is also not as robust as prior years.

The category "other financing sources and uses" illustrates an aggregate summary of both uses and sources. Significant other sources result in the form of grants, loans, etc. that may have been received from other governmental agencies in support of the City's General Government Construction Fund.

The following table provides a summary of Revenues, Expenditures and Changes in Fund Balances for the Civic Center Construction Fund.

Civic Center Construction Fund

	<u>2010</u>	<u>2009</u>	<u>Variance</u>	<u>% Change</u>
Total revenues	\$ 92,495	\$ 87,444	\$ 5,051	5.8%
Total expenditures	(3,581,257)	(2,098,028)	(1,483,229)	71%
Total other financing sources and uses	901,914	-	901,914	#DIV/0!
Net changes in fund balance	<u>(2,586,848)</u>	<u>(2,010,584)</u>	<u>(576,264)</u>	<u>29%</u>
Fund balances, beginning of year	2,586,848	4,597,432	(2,010,584)	-44%
Prior period adjustment	-	-	-	-
Fund balances, end of year	<u>(0)</u>	<u>2,586,848</u>	<u>(2,586,848)</u>	<u>-100.00%</u>

After years of strategic planning, the city began development of the Downtown Civic Center project during 2007. From 2008 through present, several key parcels of land were acquired to establish the contiguous footprint of the future Civic Campus.

The Justice Center is the first structure constructed within the Civic Center Campus. As the first structure, a great deal of planning and design by City Council, Design Commission, and staff went into the project to set the tone for the City's future Civic Center.

General Fund Budgetary Highlights

The City utilizes a biennial budget module as allowed in RCW 35A.34. For the 2009 - 2010 biennium, the City adopted an original budget for revenues and transfers in of \$25.8 million (excluding use of fund balance) and for expenditures and transfers out of \$28.0 million. The City's final revised budget at the end of the biennium (12/31/2010) for revenues and transfers in was \$24.2 million (excluding use of fund balance); the City's final revised budget at the end of the biennium budget for expenditures and transfers out was \$24.2 million. The overall decrease between original and revised budgets was (\$1,607,355) for revenues and transfers in. The overall decrease for expenditures and transfers out was (\$3,783,439). In the adopted budget ordinance, the City appropriates total expenditures, other financing uses, and use of undesignated fund balance as one expenditure total at the fund level.

Capital Assets

The following table summarizes the City's capital asset balances at December 31, 2010 and 2009.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 15,999,460	\$15,534,260	\$ 1,552,137	\$ 490,813	\$ 17,551,597	\$ 16,025,073
Construction in progress	9,991,409	4,634,254	2,898,983	3,252,439	12,890,392	7,886,693
Buildings	1,294,666	1,263,512	4,794,781	4,916,066	6,089,447	6,179,578
Improvements other than buildings	4,719,138	4,327,907	43,737,480	42,154,158	48,456,618	46,482,065
Infrastructure	10,221,921	10,435,438	-	-	10,221,921	10,435,438
Machinery and equipment	437,286	243,374	126,103	154,177	563,389	397,551
Rolling stock	2,615,037	2,541,271	-	-	2,615,037	2,541,271
Leasehold Improvements	-	-	15,780,375	16,265,925	15,780,375	16,265,925
Intangible Assets	-	-	16,344,957	17,507,347	16,344,957	17,507,347
Total	<u>\$ 45,278,917</u>	<u>\$38,980,016</u>	<u>\$ 85,234,816</u>	<u>\$84,740,925</u>	<u>\$ 130,513,733</u>	<u>\$123,720,941</u>

Significant increases occurred in governmental activities in construction in progress and improvements other than buildings. The City has many construction projects underway, including construction for the Civic Center and road construction projects.

Increases occurred in business-type activities in improvements other than building as a result of construction projects in progress in 2009 reaching completion in 2010 and reclassified from construction in progress to improvements other than building.

Additional information on the City's capital assets can be found in Note 5 C.

Debt

The following table summarizes the City's debt balances at December 31, 2010 and 2009.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds	\$ 9,526,047	\$ 10,104,276	\$ -	\$ -	\$ 9,526,047	\$ 10,104,276
Public Works Trust Fund	253,577	507,155	21,657,554	20,385,714	21,911,131	20,892,869
Revenue Bonds	-	-	4,026,730	4,410,115	4,026,730	4,410,115
Other Debt: Motorola Capital Lease	1,455,082	1,614,733	-	-	1,455,082	1,614,733
Other Debt: City of Tacoma	-	-	2,310,639	2,772,767	2,310,639	2,772,767
Compensated Absences	831,853	694,918	103,996	97,544	935,849	792,462
Other Post-Employment Benefits	235,964	242,211	-	-	235,964	242,211
Judgement Payable	-	-	-	-	-	-
Total	<u>\$ 12,302,522</u>	<u>\$ 13,163,293</u>	<u>\$ 28,098,918</u>	<u>\$ 27,666,140</u>	<u>\$ 40,401,440</u>	<u>\$ 40,829,433</u>

Additional information on the City's long-term debt can be found in Notes 5 D and E and on other post employment benefits in Note 6.

Economic Factors and Other Information

The City of Bonney Lake is considered a balanced community with a residential character that conserves natural amenities while supporting a diverse mix of economic activities. The City promotes a safe, attractive and healthful living environment for residents various physical, educational, economic and social activities while maintaining a tax base sufficient to provide a high level of accountable, accessible and efficient local government services. The City is an active participant in interlocal as well as regional services and planning organizations¹.

Regional

Strategically located in the easterly region of Pierce County, the City of Bonney Lake provides unparalleled opportunities generally associated with a more rural setting. Bonney Lake is a slight 20 minute commute to the City of Tacoma, which is the second largest city within the state. Seattle, the largest city in our state, is located within an approximate 40 minute commute northbound. This attractive proximity allows our residents the affordability and density of a suburb yet the relative close amenities such as arts and entertainment in addition to job opportunities more frequently associated with a major City.

The City enjoys close proximity to major employment centers, including Joint Base Lewis-McChord, Multi-Care Health System (including Good Samaritan Hospital), Franciscan Health Center, the Port of Tacoma, and the Seattle-Tacoma International Airport. Further information on these centers can be found at the Tacoma-Pierce County Chamber of Commerce website at www.tacomachamber.org.

Local

The economy continues to dominate local official's current outlook as changing conditions influence the city's overall fiscal picture. As an example; when consumer confidence is moderate to high, people

¹ City of Bonney Lake 2009/2010 Biennial Budget. City Council Goals & Objectives: Overall Vision.

expend more on goods and services; and, as a result city governments reap the benefit through increased sales tax collections. The struggling economy, however, and the declining real estate market have reduced consumer confidence resulting in less consumer spending ultimately leading to declining sales tax revenues.

For the first few years of the current decade consumer spending was also fueled by a strong real estate market that, in turn, provided robust revenues through local property taxes. Property tax revenues are driven primarily by the value of residential and commercial property, with property tax bills determined by an assessment of the value of property. Pursuant to the Pierce County Assessor-Treasurer, current property values continue to decline county wide. As a result, property tax revenues will continue to dwindle until local assessments catch up with changes in the real estate market.

With national economic indicators pointing to continued struggles for the near term, the City continues a very conservative approach to budgeting and forecasting. We have predicted little growth in major sources of revenues and conversely have estimated expenditures, also, very conservatively. We have acknowledged that the economy will not rebound to pre-recession levels quickly, thus continued financial vigilance is imperative for future sustainability.

As part of our overall review of fiscal policies, City leadership has recommitted to nurture economic growth in order to sustain the current health of the community as well as strategically positioning ourselves into the future. In order to accomplish this initiative City leadership has developed a strategic plan for the short term to draw upon existing reserves (fund balances) in order to “weather” the economic emergency. Direction has been, however, that dependence on reserves should discontinue by the end of fiscal year 2012.

Within the first years of the current decade general ending fund balances reached historical highs providing a “cushion” in anticipation of unpredictable events such as natural disasters and economic downturns. In much the same fashion as a personal savings account, fund balances have been built up deliberately to set aside funds for planned events such as future capital projects.

The City utilizes a biennial budget and, pursuant to state statute, adopted a 2009 - 2010 biennial budget in December 2008. A mid biennial budget amendment was subsequently adopted in December 2009 in order to provide an updated realistic road map for fiscal 2010. Conservative management practices continue to guide city leadership. Revenue and expenditure activity is monitored frequently in order to anticipate and respond to near and long term economic conditions.

The top five categories of revenue collected within the general fund, in order of dollars received is: (1) sales tax; (2) property tax; (3) building permits; (4) utility tax; and, (5) fines and forfeitures. Because sales tax is the number one revenue source, it is a predominant economic indicator for the City of Bonney Lake. The retail marketplace may serve as a benchmark to evaluate how an entity is performing compared to market average and identify problem areas at an early stage. Likewise sales tax collections may be used as an indicator to the potential of a retail climate recovery or decline. From fiscal year 2009 through 2010 the City’s sales tax collections increased \$244,119 or 7.8%, which, as mentioned, is a positive indicator.

The City continues to pursue grant opportunities to enhance our infrastructure, major programs and

capital improvement plans. Key programs or projects either completed or underway during 2010 include:

- Leaky Water Main Program – replacement of deteriorating water mains;
- Continued Design of the Public Works Maintenance Center Facility;
- Water Rights Banking Program
- Water Main and Booster Pump Station
- Fennel Creek Lift Station
- Sewer Trunk Line Improvement Program;
- Highway 410 Sewer Main Improvements;
- Storm water Pond Reconstruction Program;
- Highway 410 Sidewalk Storm water Improvements;
- Regional (downtown) storm pond;
- Fennel Creek Trail Improvements through the Safe Routes grant;
- Continuation of the Justice Center Project.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's financial accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Department, City of Bonney Lake, 19306 Bonney Lake Blvd., P.O. Box 7380, Bonney Lake, WA 98391-0944. Specific inquiries may be addressed directly to Kassandra Raymond, Accounting Manager, 253/447-4316, raymondk@ci.bonney-lake.wa.us; or Al Juarez, Chief Financial Officer, 253/447-4314, juareza@ci.bonney-lake.wa.us.

City of Bonney Lake
Statement of Net Assets
December 31, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 19,327,050	\$ 23,874,791	\$ 43,201,841
Investments	-	-	-
Receivables (net)	2,461,566	155,450	2,617,016
Due from other governments	740,289	12,025	752,314
Internal balances	(3,975,264)	3,975,264	-
Inventories	-	404,022	404,022
Prepaid items	5,925	633	6,558
Restricted assets:			
Cash and cash equivalents	(83,618)	510,098	426,480
Capital Assets:			
Non-depreciable	25,990,868	4,451,120	30,441,988
Depreciable (net)	19,288,049	80,783,696	100,071,745
Total assets	63,754,865	114,167,099	177,921,964
LIABILITIES			
Accounts payable and accrued expenses	1,383,162	425,018	1,808,180
Deposits	814,152	630,569	1,444,721
Accrued interest	513,318	484,867	998,185
Deferred revenue	298,992	-	298,992
Noncurrent liabilities:			
Due in one year	1,031,380	2,453,452	3,484,832
Due in more than one year	11,271,142	25,645,466	36,916,608
Total liabilities	15,312,146	29,639,372	44,951,518
NET ASSETS			
Invested in capital assets, net of related debt	34,081,125	58,272,488	92,353,613
Restricted for:			
Debt service	167,654	998,001	1,165,655
Unrestricted	14,193,940	25,257,238	39,451,178
Total net assets	\$ 48,442,719	84,527,727	\$ 132,970,446

The notes are an integral part of the financial statements.

City of Bonney Lake
Statement of Activities
For the Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenues			Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$ 4,367,084	\$ 1,343,348	\$ 767,274	\$ 487,200	\$ (1,769,262)	\$	\$ (1,769,262)
Public safety	5,233,944	1,063,494	208,555		(3,961,895)		(3,961,895)
Physical environment	272,676	17,534			(255,142)		(255,142)
Transportation	1,665,773	1,138,113		161,908	(365,752)		(365,752)
Health and human services	33,184	110,941	2,000		79,757		79,757
Economic environment	1,605,779	335,607			(1,270,172)		(1,270,172)
Culture and recreation	606,256	40,016			(566,240)		(566,240)
Interest on long term debt	519,149				(519,149)		(519,149)
Total governmental activities	14,303,845	4,049,053	977,829	649,108	(8,627,855)		(8,627,855)
Business-type Activities:							
Water	4,982,311	7,789,841				2,807,530	2,807,530
Sewer	4,045,897	3,897,460				(148,437)	(148,437)
Stormwater	768,293	1,448,452	43,149			723,308	723,308
Total business-type activities	9,796,501	13,135,753	43,149			3,382,401	3,382,401
Total government	\$ 24,100,346	\$ 17,184,806	\$ 1,020,978	\$ 649,108	\$ (8,627,855)	\$ 3,382,401	\$ (5,245,454)
General Revenues:							
Taxes:							
Property taxes					2,825,791		2,825,791
Sales taxes					3,363,304		3,363,304
B&O taxes					1,798,341		1,798,341
Excise taxes					870,838		870,838
Utility					870,819		870,819
Other taxes					71,704		71,704
Investment earnings					131,649	68,217	199,866
Miscellaneous revenues					103,812	28,307	132,119
Transfers					2,999,000	(2,999,000)	-
Total general revenues and transfers					13,035,258	(2,902,476)	10,132,782
Change in net assets					4,407,403	479,925	4,887,328
Net assets, beginning of year					43,843,518	84,047,802	127,891,320
Prior period adjustments					191,798		191,798
Net assets, end of year					\$ 48,442,719	\$ 84,527,727	\$ 132,970,446

The notes are an integral part of the financial statements.

City of Bonney Lake
 Balance Sheet
 Governmental Funds
 December 31, 2010

	GENERAL FUND	STREET CONSTRUCTION FUND	GENERAL GOVT CONSTRUCTION	CIVIC CENTER CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash and cash equivalents	\$ 4,843,968	\$ 4,721,248	\$ 4,886,590	256,946	\$ 2,217,244	\$ 16,925,996
Investments	-	-	-	-	-	-
Receivables (net)	1,031,512	337,323	9,278	-	464,611	1,842,724
Due from other funds	-	-	-	-	-	-
Due from other governmental units	683,316	56,972	97	-	-	740,385
Deposits	-	-	-	-	-	-
Prepaid items	6,525	(600)	-	-	-	5,925
Interfund loan receivable	-	-	-	-	-	-
Restricted assets:						
Cash and cash equivalents	(83,618)	-	-	-	-	(83,618)
Total assets	6,481,703	5,114,943	4,895,965	256,946	2,681,855	19,431,412
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	886,580	231,683	1,491	256,586	47,725	1,424,065
Due to other governments	7,858	-	-	(3,622)	6,087	10,323
Due to other funds	-	-	-	-	-	-
Deposits payable	796,771	(200)	-	-	-	796,571
Interfund loan payable	-	-	-	-	1,000,728	1,000,728
Deferred revenues	218,690	226,060	725	-	-	445,475
Other liabilities	(171,189)	48,420	(3,982)	3,982	42,604	(80,165)
Total liabilities	1,738,710	505,963	(1,766)	256,946	1,097,144	3,596,997
Fund balances:						
Reserved for:						
Debt service	-	-	-	-	-	-
Construction of capital projects	-	-	-	-	-	-
Unreserved, undesignated reported in:						
General fund	4,742,993	-	-	-	-	4,742,993
Special Revenue funds	-	-	-	-	1,112,545	1,112,545
Debt Service funds	-	-	-	-	27,361	27,361
Capital Projects funds	-	4,608,980	4,897,731	-	444,805	9,951,516
Total fund balances	4,742,993	4,608,980	4,897,731	-	1,584,711	15,834,415
Total liabilities and fund balances	\$ 6,481,703	\$ 5,114,943	\$ 4,895,965	\$ 256,946	\$ 2,681,855	\$ 19,431,412

The notes are an integral part of the financial statements.

City of Bonney Lake
 Reconciliation of Governmental Fund Balances
 To Net Assets of Governmental Activities
 For the Year Ended December 31, 2010

Total Governmental Fund Balances	\$	15,834,415
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Amounts reported for governmental activities in the statement of net assets are different because:

Receivables for fines and forfeitures and the related allowance for uncollectible accounts are not current financial resources and, therefore not reported in the funds.	616,789
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Internal Balances	(2,974,537)
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	42,663,879
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Long-term liabilities applicable to the City's activities are not due and payable in the current period and are not reported as fund liabilities:

Debt and notes payable	(11,470,668)
Compensated absences	(828,582)
Interest payable	(513,318)
Deferred revenue	146,492

Internal service funds are used by management to charge the costs of insurance and equipment rental and replacement services to individual funds.

Total assets and liabilities of the internal service funds that are reported with governmental activities, net of amounts reported above.	4,968,249
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Net assets of governmental activities	\$	48,442,719
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The notes are an integral part of the financial statements.

City of Bonney Lake
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2010

	GENERAL FUND	STREET CONSTRUCTION FUND	GENERAL GOVT CONSTRUCTION	CIVIC CENTER CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES						
Taxes						
Properly	\$ 2,479,533	\$ -	\$ -	\$ -	\$ 359,750	\$ 2,839,283
Sales	3,363,304	-	-	-	-	3,363,304
B&O	1,798,341	-	-	-	-	1,798,341
Excise	421	216,326	64,898	-	151,198	432,843
Special assessments	-	7,405	-	-	-	7,405
Other	942,523	-	-	-	-	942,523
Licenses and permits	470,362	-	-	-	-	470,362
Intergovernmental	580,385	356,143	-	-	486,763	1,423,291
Charges for goods and services	1,690,756	1,138,113	-	-	223,964	3,052,833
Fines and forfeitures	662,022	-	-	-	-	662,022
Miscellaneous:						
Interest	106,867	1,890	-	22,892	-	131,649
Other	159,886	-	-	69,603	243,900	473,389
Total revenues	12,254,400	1,719,877	64,898	92,495	1,465,575	15,597,245
EXPENDITURES						
Current:						
General government	3,436,975	-	-	43,914	-	3,480,889
Public safety	4,457,336	-	-	-	21,658	4,478,994
Utilities and environment	495,110	-	-	-	-	495,110
Transportation	1,447,245	253,929	-	-	-	1,701,174
Economic environment	1,720,759	-	-	-	-	1,720,759
Culture and recreation	368,532	-	-	-	-	368,532
Health and human services	5,532	-	-	-	-	5,532
Capital outlay	5,857	2,227,948	125,179	3,537,343	769,317	6,665,644
Debt service:						
Principal retirement	255,000	253,578	78,758	-	405,546	992,882
Interest	404,639	2,536	36,592	-	73,550	517,317
Total expenditures	12,596,985	2,737,991	240,529	3,581,257	1,270,071	20,426,833
Excess (deficiency) of revenues over expenditures	(342,585)	(1,018,114)	(175,631)	(3,488,762)	195,504	(4,829,588)
OTHER FINANCING SOURCES (USES)						
Contributions from property owners	-	55,000	-	-	-	55,000
Transfers in	-	-	3,620,418	901,914	-	4,522,332
Transfers out	-	-	(901,914)	-	(621,418)	(1,523,332)
Grant Proceeds	-	154,503	-	-	-	154,503
Total other financing sources and uses	-	209,503	2,718,504	901,914	(621,418)	3,208,503
Net Change in fund balances	(342,585)	(808,611)	2,542,873	(2,586,848)	(425,914)	(1,621,085)
Fund balances, beginning of year	\$ 5,085,578	\$ 5,417,591	\$ 2,354,858	\$ 2,586,848	\$ 2,010,625	\$ 17,455,500
Prior period adjustment	-	-	-	-	-	-
Fund balances, end of year	\$ 4,742,993	\$ 4,608,980	\$ 4,897,731	\$ -	\$ 1,584,711	\$ 15,834,415

The notes are an integral part of the financial statements.

City of Bonney Lake
 Reconciliation of The Statement of Revenue, Expenditures,
 And Changes In Fund Balances of Governmental Funds
 To the Statement of Activities
 For The Year Ended December 31, 2010

Net changes in fund balances - total governmental funds \$ (1,621,085)

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

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Court related revenues		587,778
Property taxes		(13,492)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives as depreciation expense. Amounts related to capital assets are:

Capital asset purchases capitalized	6,543,973	
Capital asset donated	432,200	
Depreciation expense	(900,562)	6,075,611

Expenses for compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (135,896)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. This is the amount of the net effect of these differences in the treatment of long-term debt and related items.

Principal and other debt service costs retired	992,882	
Other debt service costs retired	(1,423)	
Other post employment benefits	6,248	
Interest expense	(403)	997,304

Elimination of interfund transactions (1,699,515)

Internal service funds are used by management to charge the costs of insurance and information services to individual funds. The net revenue of the internal service funds is reported with the governmental activities.

Change in net assets		216,699
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Change in net assets of governmental activities \$ 4,407,404

The notes are an integral part of the financial statements.

City of Bonney Lake
 General Fund
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget (GAAP Basis) and Actual
 For the Year Ended December 31, 2010

	Budget Amounts		Actual Biennium Through 12/31/2010	Variance with Final Budget Over (Under)
	Approved Original Budget 2009-2010 Biennium	Approved Revised Budget 2009-2010 Biennium		
REVENUES				
Taxes				
Property	\$ 5,101,649	\$ 5,238,873	\$ 4,934,336	\$ (304,537)
Sales	7,774,465	6,652,611	6,482,489	(170,121)
Business & Occupation	5,242,160	4,956,105	3,703,382	(1,252,723)
Other	317,460	301,020	1,962,147	1,661,127
Licenses and permits	1,068,884	845,496	1,017,204	171,708
Intergovernmental	790,310	920,873	1,147,675	226,802
Charges for services	1,969,066	1,302,000	2,813,607	1,511,607
Fines and forfeitures	1,477,207	1,209,293	1,243,172	33,879
Miscellaneous				
Interest Earnings	338,624	300,000	342,087	42,087
Other	127,798	577,199	598,217	21,018
Total revenues	24,207,622	22,303,469	24,244,315	1,940,846
EXPENDITURES				
Current:				
General government	7,513,993	6,103,548	7,046,633	943,085
Public safety	9,757,341	8,760,407	8,865,661	105,254
Utilities and environment	1,588,856	904,510	1,009,463	104,953
Transportation	2,006,452	1,693,900	2,919,750	1,225,850
Economic environment	4,490,685	3,574,597	3,432,354	(142,243)
Culture and recreation	783,004	696,948	704,097	7,149
Health and human services	10,531	10,375	8,368	(2,007)
Debt Service	-	659,638	659,638	(1)
Capital Outlay	119,500	83,000	54,985	(28,015)
Total expenditures	26,270,362	22,486,923	24,700,948	2,214,025
Excess (deficiency) of revenues over expenditures	(2,062,740)	(183,454)	(456,633)	(273,179)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,642,228	1,939,027	-	(1,939,027)
Transfers out	(1,723,326)	(1,723,326)	-	1,723,326
Total other financing sources (uses)	(81,098)	215,701	-	(215,701)
Net change in fund balances	(2,143,837)	32,247	(456,633)	(488,880)
FUND BALANCES, BEGINNING	4,883,296	4,883,296	4,883,296	-
PRIOR PERIOD ADJUSTMENTS				
FUND BALANCES, ENDING	\$ 2,739,459	\$ 4,915,543	\$ 4,426,663	\$ (488,880)

The notes are an integral part of the financial statements.

City of Bonney Lake
Statement of Net Assets
Proprietary Funds
December 31, 2010

	Business-type Activities - Enterprise Funds				
	Water	Sewer	Stormwater	Total Proprietary Funds	Gov. Activities Internal Service Funds
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 14,474,783	\$ 8,989,712	\$ 410,296	\$ 23,874,791	\$ 2,401,053
Investments	-	-	-	-	-
Receivables (net of allowance for uncollectible accounts)	22,459	132,499	495	155,453	2,051
Due from other governmental units	-	-	12,025	12,025	-
Prepaid Expenses	600	-	33	633	-
Deposits	-	-	603	603	-
Interfund loan receivable - current	-	200,145	-	200,145	-
Inventories	80,465	323,557	-	404,022	-
Restricted assets:					
Cash and cash equivalents	61,345	448,148	-	509,493	-
Total current assets:	14,639,652	10,094,061	423,452	25,157,165	2,403,104
Noncurrent assets:					
Interfund loan receivable	-	800,582	-	800,582	-
Capital assets:					
Land	1,317,275	234,863	-	1,552,138	-
Construction in progress	1,606,644	1,292,339	-	2,898,983	-
Buildings	2,843,653	3,210,849	9,683	6,064,185	-
Leasehold improvements	-	19,422,000	-	19,422,000	-
Improvements other than buildings	45,643,792	2,292,563	7,621,712	55,558,067	-
Machinery and equipment	47,204	814,364	3,279	864,847	5,395,346
Intangible asset	9,244,346	15,665,032	137,297	25,046,675	-
Accumulated depreciation	(13,153,105)	(11,181,028)	(1,837,943)	(26,172,076)	(2,780,308)
Total noncurrent assets:	47,549,809	32,551,564	5,934,028	86,035,401	2,615,038
Total assets	62,189,461	42,645,625	6,357,480	111,192,566	5,018,142
LIABILITIES AND FUND BALANCES					
Current liabilities:					
Accounts payable and accrued expenses	182,382	744,965	33,681	961,028	46,622
Due to other governments	28	3	-	31	-
Deposits	(256,066)	372,266	535	116,735	-
Accrued interest	397,827	87,040	-	484,867	-
Current portion of long-term debt	1,702,199	751,253	-	2,453,452	-
Other Liabilities	(6,578)	(16,462)	835	(22,205)	-
Total current liabilities:	2,019,792	1,939,065	35,051	3,993,908	46,622
Non current liabilities:					
Compensated absences	55,165	48,831	-	103,996	3,271
Revenue bonds payable	2,972,691	655,654	-	3,628,345	-
Public Works Trust Fund payable	11,226,725	8,837,889	-	20,064,614	-
Contract payable for purchase of water rights	1,848,511	-	-	1,848,511	-
Total Non current liabilities:	16,103,092	9,542,374	-	25,645,466	3,271
Total liabilities	18,122,884	11,481,439	35,051	29,639,374	49,893
NET ASSETS					
Invested in capital assets, net of related debt	30,797,684	22,306,768	5,934,028	59,038,480	2,615,038
Restricted for debt service	998,001	-	-	998,001	-
Unrestricted	12,270,892	8,857,418	388,401	21,516,711	2,353,211
Total net assets	\$ 44,066,577	\$ 31,164,186	\$ 6,322,429	81,553,192	\$ 4,968,249
Reconciliation to government-wide statement of net assets					
Adjustment to reflect consolidations of internal service funds' activities related to				2,974,535	
Net assets of business-type activities				84,527,727	

The notes are an integral part of the financial statements.

City of Bonney Lake
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2010

	Business-type Activities - Enterprise Funds				Gov. Activities Internal Service Funds
	Water	Sewer	Stormwater	Total Proprietary Funds	
Operating revenues:					
Charges for goods and services	\$ 6,221,623	\$ 3,370,104	\$ 1,390,758	\$ 10,982,485	\$ 1,503,620
Total operating revenues	6,221,623	3,370,104	1,390,758	10,982,485	1,503,620
Operating expenses:					
Cost of sales and services	2,660,269	2,382,589	623,670	5,666,528	611,811
Administration	679,734	479,918	100,797	1,260,449	62,455
Insurance	-	-	-	-	408,955
External and interfund taxes	828,431	329,380	136,137	1,293,948	-
Depreciation	1,476,476	1,283,720	173,929	2,934,125	356,415
Total operating expenses	5,644,910	4,475,607	1,034,533	11,155,050	1,439,636
Operating income (loss)	576,713	(1,105,503)	356,225	(172,565)	63,984
Nonoperating revenues (expenses):					
Gain / (Loss) on retirement of assets	-	-	-	-	13,669
Investment earnings	63,912	4,304	-	68,216	-
Miscellaneous revenue	29,127	-	-	29,127	17,375
Interest and other debt service cost	(259,400)	(81,563)	-	(340,963)	-
Capital outlay	-	-	-	-	-
Total non operating revenue	(166,361)	(77,259)	-	(243,620)	31,044
Income (loss) before contributions and transfers	410,352	(1,182,762)	356,225	(416,185)	95,028
System development fees	1,567,398	527,356	57,693	2,152,447	-
Capital contributions	-	-	-	-	121,671
Grant Proceeds	-	-	43,149	43,149	-
Transfers in	-	-	-	-	-
Transfers out	(1,700,000)	(1,000,000)	(299,000)	(2,999,000)	-
Change in net assets	277,750	(1,655,406)	158,067	(1,219,589)	216,699
Net assets at beginning of year	43,788,827	32,819,592	6,164,362	82,772,781	4,751,550
Prior period adjustments	-	-	-	-	-
Net assets at end of year	\$ 44,066,577	\$ 31,164,186	\$ 6,322,429	\$ 81,553,192	\$ 4,968,249

The notes are an integral part of the financial statements.

City of Bonney Lake
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2010

	Business-type Activities - Enterprise Funds				Gov. Activities Internal Service Funds	ER&R	Insurance
	WATER	SEWER	STORM	TOTAL			
Cash flows from operating activities:							
Receipts from customers and users	\$ 6,470,767	\$ 4,996,372	\$ 1,390,366	\$ 12,857,505	\$ 1,504,030	\$ 1,144,485	\$ 359,545
Payments for external and interfund taxes	(828,431)	(329,380)	(136,137)	(1,293,948)	-	-	-
Payments to employees	(1,498,138)	(1,119,380)	(578,441)	(3,195,959)	(184,761)	(184,761)	-
Payments for goods and services	(2,072,962)	(2,169,787)	(135,519)	(4,378,268)	(878,168)	(469,213)	(408,955)
Net cash provided by operating activities	2,071,236	1,377,825	540,269	3,989,330	441,101	490,511	(49,410)
Cash flows from noncapital financing activities:							
Grants and contributions	-	-	43,149	43,149	-	-	-
Interfund loans	-	200,145	-	200,145	-	-	-
Payments from other governments	-	-	-	-	-	-	-
Transfers from other funds	-	-	-	-	-	-	-
Transfers to other funds	(1,700,000)	(1,000,000)	(299,000)	(2,999,000)	-	-	-
Nonoperating system development fees	1,567,398	527,356	57,693	2,152,447	-	-	-
Nonoperating miscellaneous revenue	29,127	-	-	29,127	20	20	-
Net cash (used) by Noncapital financing	(103,475)	(272,499)	(198,158)	(574,132)	20	20	-
Cash flows from capital and related financing activities:							
Proceeds from capital debt	1,563,800	1,162,000	-	2,725,800	-	-	-
Debt principal payments	(1,612,792)	(683,297)	-	(2,296,089)	-	-	-
Interest paid on debt	(254,773)	(81,563)	-	(336,336)	-	-	-
Proceeds from sales of equipment or vehicles	-	-	-	-	14,119	14,119	-
Payment for capital acquisitions	(2,685,106)	(694,365)	(57,084)	(3,436,555)	(266,236)	(266,236)	-
Capital contributions	-	-	-	-	-	-	-
Insurance recoveries	-	-	-	-	16,904	13,298	3,606
Net cash (used) by capital and related financing activities	(2,988,871)	(297,225)	(57,084)	(3,343,180)	(235,213)	(238,819)	3,606
Cash flows from investing activities:							
Investment redemptions	5,926,562	-	-	5,926,562	-	-	-
Interest income	58,181	4,304	-	62,485	-	-	-
Other	-	(18,077)	-	(18,077)	-	-	-
Net cash provided by investing activities	5,984,743	(13,773)	-	5,970,970	-	-	-
Net Increase (decrease) in cash and cash equivalents	4,963,633	794,328	285,027	6,042,988	205,908	251,712	(45,804)
Cash and cash equivalents, beginning of year	9,572,495	8,643,532	125,269	18,341,296	2,195,144	1,982,996	212,148
Cash and cash equivalents, end of the year	\$ 14,536,128	\$ 9,437,860	\$ 410,296	\$ 24,384,284	\$ 2,401,052	\$ 2,234,708	\$ 166,344

CITY OF BONNEY LAKE
Notes to the Financial Statements
December 31, 2010

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 legislative authority, the City Council, consists of a Mayor and seven Council members who are elected to overlapping four-year terms of office. 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 activities) report information on all of the nonfiduciary activities of the 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. Business-type activities are those that 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. The City's 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 included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the funds' financial statements.

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

The government-wide financial statements and the proprietary financial statements are reported focusing on the economic resources measurements and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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 (susceptible to accrual) if they are collected within 60 days of the end of the current fiscal period. The city considers property taxes as available if they are collected within 60 days after year end. 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 accrued 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 Street Construction Fund is used for capital purposes such as roads, streets, sidewalks and street lights.
- The General Government Construction Fund is used for capital purposes.
- The Civic Center Construction Fund is used for capital purposes.

The City has three proprietary funds and considers them all to be major.

- The Water Fund accounts for the activities of water distribution for the City. The City operates its own water distribution system.
- The Sewer Fund accounts for the sewer collection activities for the City. The City operates its own sewage pumping stations and collection systems, and has a capacity agreement with the City of Sumner, who operates the wastewater treatment plant.
- The Stormwater Fund accounts for the activities of stormwater treatment and disposal.

Additionally, 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.

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 non-operating 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 non-operating 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

The City of Bonney Lake's budget procedures are mandated by Chapter 35A.34 of the Revised Code of Washington. Biennial budgets are adopted for all governmental funds on a basis consistent with generally accepted accounting principles. Budgets are adopted at the level of the fund, and the budgets constitute the legal authority for expenditures at that level. For administrative purposes, the biennial budget allocates budgets separately for each year of the biennium; however, legally, the combined allocations for the biennium constitute the officially adopted budget. Appropriations lapse at biennial end.

The City presents required budgetary comparisons for the General Fund as a basic governmental fund financial statement. The budgetary comparison statement is presented using generally accepted accounting principles.

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

(See additional information at Note 4.)

E. Assets, Liabilities and Equities

1. Cash and Cash Equivalents

The City considers all highly liquid investments including restricted assets with a maturity of three months or less when purchased to be a cash equivalent.

It is the City's policy to invest all temporary cash surpluses. At December 31, 2010, the treasurer was holding \$43,628,321 in cash and cash equivalents.

2. Investments

Investments are valued at fair market value.

(See additional information at Note 5A.)

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties.

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.

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.

(See additional information at Note 5B.)

4. Amounts Due to and from Other Funds, Governments, and Interfund Loans

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “interfund loans receivable/payable”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

(See additional information at Note 5F.)

5. 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.

Inventories in proprietary funds are valued by the LIFO method (which approximates the market value).

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual purchase price of \$5,000 or greater and an estimated useful life in excess of two years, or, for infrastructure assets, with an initial purchase price of \$50,000 or more and a useful life of greater than 20 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Major outlays for capital assets and improvements are capitalized as projects are constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Asset Type</u>	<u>Years</u>
Office furniture	10
Computer equipment	4 - 5
Machinery and equipment	5 - 50
Other improvements	30 - 40
Buildings and structures	45 - 50
Infrastructure	30 - 60

For assets acquired in and subsequent to 2007, no depreciation is taken in the acquisition year; rather, a full year of depreciation is taken in the year subsequent to acquisition and each year thereafter. Upon disposition, a full year of depreciation is taken in the year of disposition.

For assets acquired in the year 2006 and prior, depreciation is calculated according to the month of acquisition. For example, assets acquired in April in year 2006 or prior were calculated with eight months of depreciation in the first year. Subsequent years are calculated with a full twelve months of depreciation. Similarly, upon disposition, depreciation is calculated based on the month of disposition.

(See additional information at Note 5C.)

8. Compensated Absences

Compensated absences, such as vacation and sick leave are absences for which employees will be paid. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. Vacation pay may be accumulated up to a maximum of 240 hours or 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. Sick leave may accumulate up to a maximum of 960 hours. After 5 years employment, 25% of accumulated sick leave up to a maximum of 720 hours is payable upon resignation or layoff. Upon retirement, or death, 100% of accumulated sick leave up to a maximum of 720 hours is payable.

(See additional information at Note 5E.)

9. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in all statements other than those statements prepared on the modified accrual basis of accounting (the governmental fund statements). Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs, during the current period as other financing sources or uses; the face amount of debt issued is reported as other financing sources.

(See additional information at Note 5D and E.)

10. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets, and adding back unspent proceeds. Net assets reported as restricted for debt service represent unspent debt proceeds.

(See additional information at Note 5G.)

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 – PROPERTY TAXES

The County Assessor-Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are on approximately the 10th of each month for the prior month collections.

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.
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 \$3.6 per \$1,000 of assessed valuation for general governmental services, subject to two limitations:

1. Washington State (RCW 84.55.010) limits the growth of regular property taxes to one percent per year unless approved by a majority of the voters at an election as provided in RCW 84.55.050. Under this statute, local governments are free to place measures on the ballot seeking approval of property tax increases for: Specific dollar amounts, specific periods of time, which can exceed one year, and/or general or limited purposes;
2. The Washington State Constitution limits the total regular property taxes to one percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.

The City levy 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 less \$.50 for the library district = \$1.60.)

Special property tax levies approved by the voters are not subject to the limitations listed above.

The City's regular tax levy for the tax year 2010 was \$1.107 on an assessed valuation of \$2.23 billion for a total regular levy of \$2,469,660. Additionally, a special levy for debt service on the Public Safety Building was \$0.162 per \$1,000 for a total additional levy of \$359,749. The total City property tax levies for tax year 2010 was \$1.269 per \$1,000 of assessed value yielding \$2,829,409.

NOTE 5 – DETAILED NOTES ON FINANCIAL STATEMENT BALANCES

A. Deposits and Investments

At year end, the City's cash and cash equivalents amounted to \$43,628,321. The book values of deposits do not differ materially from the bank balances of deposits.

Deposit custodial credit risk is the risk that in the event of a bank failure, the city's deposits may not be recovered. The Federal Deposit Insurance Commission (FDIC) insures the City's deposits up to \$100,000. The Washington Public Deposit Protection Commission (WPDPC) insures amounts over \$100,000. The WPDPC is a multiple financial institution collateral pool established by state statute, to protect public funds against loss. At year end 2010, the bank balances of deposits were entirely insured through the FDIC and the WPDPC. The City had no custodial credit risk for deposits for the year ended 2010.

Investments for the City are reported at fair value. The City's investment policy allows for authorized investments up to 36 months to maturity. The City's investment policy is to apply the prudent-person rule: In acquiring, retaining, managing, and disposing of investments, there shall be exercised the judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of the funds, considering the probable income as well as the probable safety of the capital.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City had no outstanding investments other than the Local Government Investment Pool, and therefore, no interest rate risk as of December 31, 2010.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Concentration of credit risk* is the risk of loss attributed to the magnitude of an investment in a single issuer. The City had no outstanding investments other than the Local Government Investment Pool, and therefore, no credit risk as of December 31, 2010.

Investment custodial credit risk 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 2010, the city did not have any custodial credit risk because all investments were held by the State Treasurer in the Local Government Investment Pool, or held by the City in its own trust account.

B. Receivables

A summary of accounts receivable balances for the year ended December 31, 2010 is as follows:

	Governmental Activities	Business-Type Activities
Taxes receivable	\$ 71,903	\$ -
Taxes receivable, delinquent	146,483	-
Accounts receivable	1,594,988	155,450
Accounts receivable, Municipal Court net of allowance for doubtful accounts of \$2,534,552	616,789	-
Special assessment receivable, current	(12,946)	-
Special assessment receivable, deferred	40,217	-
Interest receivable, special assessments	4,132	-
Other receivables	-	-
Total deferred/unearned revenue for governmental funds	<u>\$ 2,461,566</u>	<u>\$ 155,450</u>

As of December 31, 2010, no special assessments receivable were delinquent.

C. Capital Assets

A summary of capital assets activity for the year ended December 31, 2010 is as follows:

	Beginning Balance	Prior Period Adjustment	Increases	Decreases	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 15,534,260	\$ -	\$ 465,200	\$ -	\$ 15,999,460
Construction in progress	4,653,653	-	6,172,805	(835,049)	9,991,409
Total capital assets, not being depreciated	20,187,913	-	6,638,005	(835,049)	25,990,869
Capital assets, being depreciated:					
Buildings	4,566,436	-	182,623	-	4,749,059
Improvements other than buildings	5,023,592	-	697,444	-	5,721,036
Machinery and equipment	1,948,492	-	293,152	-	2,241,644
Rolling Stock	5,136,878	-	395,675	(137,209)	5,395,344
Infrastructure	16,887,345	191,798	-	-	17,079,143
Total capital assets being depreciated	33,562,743	191,798	1,568,894	(137,209)	35,186,226
Less accumulated depreciation for:					
Buildings	(3,302,924)	-	(151,469)	-	(3,454,393)
Improvements other than buildings	(715,084)	-	(286,814)	-	(1,001,898)
Machinery and equipment	(1,747,394)	-	(56,964)	-	(1,804,358)
Rolling Stock	(2,553,333)	-	(356,415)	137,209	(2,772,539)
Infrastructure	(6,451,907)	-	(405,315)	-	(6,857,222)
Total accumulated depreciation	(14,770,642)	-	(1,256,977)	137,209	(15,890,410)
Total capital assets, being depreciated, net	18,792,101	191,798	311,917	-	19,295,816
Governmental activities capital assets, net	\$ 38,980,014	\$ 191,798	\$ 6,949,922	\$ (835,049)	\$ 45,286,685

	Beginning Balance	Prior Period Adjustment	Increases	Decreases	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 490,813	\$ -	\$ 1,061,324	\$ -	\$ 1,552,137
Construction in progress	3,252,439	-	2,112,773	(2,466,229)	2,898,983
Total capital assets, not being depreciated	3,743,252	-	3,174,097	(2,466,229)	4,451,120
Capital assets, being depreciated:					
Buildings	6,064,186	-	-	-	6,064,186
Leasehold Improvements	19,422,000	-	-	-	19,422,000
Improvements other than buildings	52,846,333	-	2,711,732	-	55,558,065
Machinery and equipment	856,431	-	8,416	-	864,847
Intangible assets	25,046,675	-	-	-	25,046,675
Total capital assets being depreciated	104,235,625	-	2,720,148	-	106,955,773
Less accumulated depreciation for:					
Buildings	(1,148,120)	-	(121,285)	-	(1,269,405)
Leasehold Improvements	(3,156,075)	-	(485,550)	-	(3,641,625)
Improvements other than buildings	(10,692,177)	-	(1,128,408)	-	(11,820,585)
Machinery and equipment	(702,253)	-	(36,491)	-	(738,744)
Intangible assets	(7,539,327)	-	(1,162,391)	-	(8,701,718)
Total accumulated depreciation	(23,237,952)	-	(2,934,125)	-	(26,172,077)
Total capital assets, being depreciated, net	80,997,673	-	(213,977)	-	80,783,696
Business-type activities capital assets, net	\$ 84,740,925	\$ -	\$ 2,960,120	\$ (2,466,229)	\$ 85,234,816

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

Governmental activities:	
General government	\$ 71,231
Public safety	332,126
Physical Environment	242,750
Transportation	500,361
Health & Human Services	20,052
Economic Environment	3,362
Culture & Recreation	87,095
Total depreciation expense - governmental activities	\$ 1,256,977
Business-type activities:	
Water	\$ 1,476,476
Sewer	1,283,720
Stormwater	173,929
Total depreciation expense - business type activities	\$ 2,934,125

At year end the city's commitments are as follows:

	Spent-to-Date	Remaining Commitment
Streets Capital Projects (301)		
Bonney Lake Blvd Reconstruction	\$ 50,640	\$ 154,360
Sumner Buckley Hwy -SR 410 to Main St. Intersection	2,188,556	1,177,444
214th Ave Intersection Imprmt	316,137	(75,137)
Main Street/SR 410 Intersection	204,778	21,982
OSB & SR410 w/signal	472,286	117,714
80th & 82 st sidewalks	40,823	264,177
Sidewalks- SR410 (OSB-Main)	-	138,000
410- Streetlight Project	76,277	(76,277)
410- Sidewalk 198th-200th	132,690	788,310
Subtotal Street Capital Improvement Fund	3,482,186	2,510,574
Parks Capital Projects (302)		
Fennel Crk Trail / Safe Routes - Sidewalks	552,299	228,701
Fennel Creek Trail Construction Project	562,204	282,796
Subtotal Parks Capital Improvement Fund	1,114,503	511,497
General Government Capital Projects (320)		
Tower construction - 800 MHz	182,623	(0)
Fiber Optic wiring/infrastructure	133,594	0
General Government Capital Projects (325)		
Downtown Civic Center Improvements	5,260,017	1,939,983
Subtotal General Government Capital Improvement Fund	5,576,233	1,939,984
Total Governmental Funds	\$ 10,172,923	\$ 4,962,054

	Spent-to-Date	Remaining Commitment
Water Fund Projects (401)		
Public Works Facility	\$ 86,428	\$ 1,413,572
TWD Booster Pump Station	744,008	935,992
DT SR 410/OSB M Street Waterline	269,646	-
Interlake Island Water Main-PH2B	1,066,838	-
Church LK Dr H2O Main replacement PH2B	552,862	-
96th/SR410 Eastown	68,332	-
Leaky Main Phase 2C	139,010	-
Subtotal Water Fund Projects	<u>2,927,125</u>	<u>2,349,564</u>
Sewer Fund Projects (402)		
Septic System Reduction Program-Kelly Creek	187,963	10,037
Eastown lift station prsline LS 18 Upgrade	108,275	-
Elhi Hill/sr410 Sanatry Swr Interceptor	437,525	173,873
82nd St Ct E. Sanitary Sewer	187,637	17,963
Church Lake Drive Sewer system	229,055	-
SR410 Valley Ave Slip Line	1,040,233	-
SR410 Main Repair-Phase 4	134,302	-
Angeline Sewer Force Main	52,281	1,460,719
Subtotal Sewer Fund Projects	<u>2,377,271</u>	<u>1,662,592</u>
Stormwater Fund Projects (415)		
Storm Pond reconstruction program	20,045	-
184th Corridor Waterline (end 2009)	28,799	-
Subtotal Stormwater Fund Projects	<u>48,844</u>	<u>-</u>
Total Business-Type Activities		
	<u>5,353,240</u>	<u>4,012,156</u>
Total All Funds	<u>\$ 15,526,162</u>	<u>\$ 8,974,211</u>

Improvements to the water system are being funded by Public Works Trust Fund Loans, notes from the City of Tacoma, system development fees, and its own funds. The notes from the City of Tacoma are secured by water revenues. Upgrades to the City of Sumner's wastewater treatment plant are funded by Public Works Trust Fund Loans, which are secured by sewer revenues.

For Street Projects and Park Projects the main source of revenue is Real Estate Excise Taxes, impact fees, and its own revenue.

D. Long-Term Debt

General Obligation Bonds

At December 31, 2010, the general obligation bonds payable consist of the following issues for governmental activities:

2007 General Obligation Bonds, dated December 11, 2007, due in annual installments through December 1, 2022, bearing interest rates of 3.15% to 4.5% \$9,225,000

1997 General Obligation Bonds, due in annual installments through December 1, 2011, bearing interest rates of 4.1% to 5.25%. The City used this bond issue to refund its 1992 General Obligation Bonds in the authorized amount of \$2,865,000. 340,000

Total General Obligation Bonds Payable \$9,565,000

Public Works Trust Fund Loans

At December 31, 2010, the Public Works Trust Fund loans payable consist of the following issues:

Governmental Activities

<u>Loan Number</u>	<u>Purpose</u>	<u>Annual Installment</u>	<u>End of Year Balance</u>
PW-06-962-PRE-101	192nd Ave E. Connection	\$ 253,578	\$ 253,578

Business-Type Activity

<u>Loan Number</u>	<u>Purpose</u>	<u>Annual Installment</u>	<u>End of Year Balance</u>
PW-02-691-006	Sumner Treatment Plant	373,047	4,476,564
PW-04-691-009	Leak Reduction Program	247,456	3,464,379
PW-04-691-008	Ballpark Well Treatment	178,676	2,501,471
PW-03-691-003	Spring Sources Water Quality Facilities	63,715	828,301
PW-04-691-007	Sewer Treatment Plant Upgrade	105,450	1,476,300
PW-5-96-791-004	Church Lake Main Replacement	66,057	396,342
PW-06-962-ELP-302	Reconstruct Sewer to Sumner WWTP	26,316	421,053
PW-00-691-008	McGhee Drive Water Main	38,306	383,064
PW-97-791-017	Ponderosa Construction	50,468	353,276
PW-98-78898-08	Lakeridge Booster Pump Station	37,657	338,915
PW-98-78898-07	Corrosion Control Facility	14,974	134,769
PW-98-791-006	Ponderosa Overflow	14,995	119,962
PC08-951-004	Leak Reduction Program Phase II	126,758	3,619,642
PC08-951-005	Reconstruct Sewer to Sumner WWTP	110,084	3,143,516
		<u>1,453,961</u>	<u>21,657,554</u>
	Total	<u>\$ 1,707,539</u>	<u>\$ 21,911,132</u>

Revenue Bonds

At December 31, 2010, the revenue bond debt consists of the following issues for business-type activities:

2007 Revenue Refunding bonds, dated December 2007, due in annual installments through December 2019, bearing interest rates of 3.5% - 3.93% \$3,960,000

Total Revenue Bond Debt \$3,960,000

Other Debt

At December 31, 2010, the other debt balances of the following issues:

Business activity loan payable to the City of Tacoma for payment of system development charges so that the City of Bonney Lake may purchase water during peak capacity. The note, issued January 2005, is due in annual installments through January 2015, bearing an interest rate of prime plus 2%. \$2,310,639

Governmental activity capital lease payable to Motorola Financing for payment of the 800MHz emergency preparedness system. The gross amount of assets acquired under the capital lease include \$893,427 for communications equipment (including radios and equipment necessary to equip the transmission site) and \$1,258,801 for construction (including professional and other installation services) of the transmitting tower. The lease, issued in March 2008, is due in annual installments through 2018, bearing an interest rate of 4.54% 1,452,646

Total General Obligation Bonds Payable \$3,763,285

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each debt type for the years subsequent to December 31, 2010 are as follows:

<u>General Obligation Bonds</u>						
Year	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
2011	\$ 605,000	\$ 405,275	\$ 1,010,275	\$ -	\$ -	\$ -
2012	275,000	386,413	661,413	-	-	-
2013	285,000	376,100	661,100	-	-	-
2014	295,000	364,700	659,700	-	-	-
2015	305,000	352,900	657,900	-	-	-
2016-2020	1,740,000	1,561,775	3,301,775	-	-	-
2021-2025	2,160,000	1,136,825	3,296,825	-	-	-
2026-2030	2,665,000	631,115	3,296,115	-	-	-
2031-2035	1,235,000	82,060	1,317,060	-	-	-
	<u>\$ 9,565,000</u>	<u>\$ 5,297,163</u>	<u>\$ 14,862,163</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

<u>Revenue Bonds</u>						
Year	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
2011	\$ -	\$ -	\$ -	\$ 395,000	\$ 158,820	\$ 553,820
2012	-	-	-	415,000	143,020	558,020
2013	-	-	-	430,000	126,420	556,420
2014	-	-	-	445,000	109,220	554,220
2015	-	-	-	465,000	91,420	556,420
2016-2020	-	-	-	1,810,000	177,873	1,987,873
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,960,000</u>	<u>\$ 806,773</u>	<u>\$ 4,766,773</u>

<u>Public Works Trust Fund Loans</u>						
Year	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
2011	\$ 253,578	\$ 1,063	\$ 254,640	\$ 1,592,850	\$ 152,303	\$ 1,745,153
2012	-	-	-	1,592,850	138,422	1,731,272
2013	-	-	-	1,592,850	125,604	1,718,454
2014	-	-	-	1,592,850	112,785	1,705,635
2015	-	-	-	1,592,850	99,966	1,692,816
2016-2020	-	-	-	7,465,994	321,104	7,787,098
2021-2025	-	-	-	5,073,802	106,235	5,180,037
2026-2030	-	-	-	1,153,509	12,061	1,165,570
	<u>\$ 253,578</u>	<u>\$ 1,063</u>	<u>\$ 254,640</u>	<u>\$ 21,657,555</u>	<u>\$ 1,068,480</u>	<u>\$ 22,726,035</u>

<u>Other Debt</u>						
Year	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
2011	\$ 166,618	\$ 117,218	\$ 283,836	\$ 462,128	\$ 135,842	\$ 597,970
2012	174,268	117,305	291,573	462,128	108,674	570,802
2013	182,270	117,395	299,665	462,128	81,505	543,633
2014	190,639	117,488	308,127	462,128	54,337	516,465
2015	199,392	117,587	316,979	462,128	27,169	489,296
2016-2020	539,459	238,046	777,505	-	-	-
	<u>\$ 1,452,646</u>	<u>\$ 825,039</u>	<u>\$ 2,277,685</u>	<u>\$ 2,310,639</u>	<u>\$ 407,527</u>	<u>\$ 2,718,167</u>

E. Changes in Long-Term Liabilities

During the year ended December 31, 2010, the following changes occurred in long-term liabilities:

	Interest Rates	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:						
Bonds and loans payable:						
General Obligation Bonds						
2007 General obligation bonds	3.15 - 4.1%	\$ 9,480,000	\$ -	\$ (255,000)	\$ 9,225,000	\$ 265,000
2007 General obligation bond premium	n/a	98,506	-	(4,283)	94,223	4,283
2007 General obligation bond debt issue costs	n/a	(139,230)	-	6,054	(133,176)	(6,054)
1997 General obligation refunding bonds		665,000	-	(325,000)	340,000	340,000
Subtotal General obligation bonds		10,104,276	-	(578,229)	9,526,047	603,229
Public Works Trust Fund Loans						
PWTF Loan (PW-06-962-PRE-101)	005%	507,155	-	(253,578)	253,577	253,577
Subtotal Public Works Trust Fund Loans		507,155	-	(253,578)	253,577	253,577
Other Debt						
Motorola 800MHz capital lease	4.54%	1,611,949	-	(159,303)	1,452,646	166,618
Motorola 800MHz capital lease unamortized debt issue costs	n/a	2,784	-	(348)	2,436	348
Compensated absences	n/a	694,918	136,935	-	831,853	-
Other post-employment benefits	n/a	242,211	131	(6,378)	235,964	7,608
Subtotal Other Debt		2,551,862	137,066	(166,029)	2,522,898	174,574
Governmental activity long-term liabilities		13,163,293	137,066	(997,836)	12,302,522	1,031,380
Business-type activities:						
Revenue and Revenue Refunding Bonds						
2007 Revenue Refunding Bonds	2.9 - 4.1%	\$ 4,340,000	\$ -	\$ (380,000)	\$ 3,960,000	\$ 395,000
2007 Revenue Refunding bond premium	n/a	33,275	-	(1,138)	32,137	1,138
2007 Revenue refunding unamortized debt issue costs	n/a	36,840	-	(2,247)	34,593	2,247
Subtotal Revenue and Revenue Refunding bonds		4,410,115	-	(383,385)	4,026,730	398,385
Public Works Trust Fund Notes	various	20,385,714	2,725,800	(1,453,961)	21,657,554	1,592,939
Other Debt						
City of Tacoma Note	Prime -2%	2,772,767	-	(462,128)	2,310,639	462,128
Compensated absences	n/a	97,544	6,452	-	103,996	-
Subtotal Other Debt		2,870,311	6,452	(462,128)	2,414,635	462,128
Business-type activity long-term liabilities		27,666,140	2,732,252	(2,299,474)	28,098,919	2,453,452

During the year ended December 31, 2010, the following changes occurred in long-term liabilities for Public Works Trust Fund loans:

<u>Governmental Activities</u>							
Loan Number	Purpose	Interest	Beginning of Year			End of Year Balance	Due in One Year
			Balance	Additions	Reductions		
PW-06-962-PRE-101	192nd Ave E. Connection	0.50%	\$ 507,156	\$ -	\$ (253,578)	\$ 253,578	\$ 253,578
<u>Business-Type Activity</u>							
Loan Number	Purpose	Interest	Beginning of Year			End of Year Balance	Due in One Year
			Balance	Additions	Reductions		
PW-04-691-009	Leak Reduction Program	0.50%	3,486,035	225,800	(247,456)	3,464,379	247,456
PW-04-691-008	Ballpark Well Treatment	0.50%	2,680,147	-	(178,676)	2,501,471	178,676
PW-03-691-003	Spring Sources Water Quality Facilities	0.50%	892,016	-	(63,715)	828,301	63,715
PW-5-96-791-004	Church Lake Main Replacement	3.00%	462,399	-	(66,057)	396,342	66,057
PW-97-791-017	Ponderosa Construction	1.00%	403,744	-	(50,468)	353,276	50,468
PW-00-691-008	McCltee Drive Water Main	1.00%	421,370	-	(38,306)	383,064	38,306
PW-98-78898-08	Lakeridge Booster Pump Station	4.35%	376,573	-	(37,657)	338,915	37,657
PW-98-78898-07	Corrosion Control Facility	4.35%	149,743	-	(14,974)	134,769	14,974
PW-98-791-006	Ponderosa Overflow	1.00%	134,957	-	(14,995)	119,962	14,995
PC08-95-1-004	Leak Reduction Program Phase II	0.50%	2,408,400	1,338,000	(126,758)	3,619,642	201,091
			11,415,385	1,563,800	(839,064)	12,140,121	913,396
PW-02-691-006	Summer Treatment Plant	0.50%	4,849,611	-	(373,047)	4,476,564	373,047
PW-04-691-007	Sewer Treatment Plant Upgrade	0.50%	1,581,750	-	(105,450)	1,476,300	105,450
PW-06-962-ELP-302	Reconstruct Sewer to Summer WWTP	3.00%	447,368	-	(26,316)	421,053	26,316
PC08-951-005	Reconstruct Sewer to Summer WWTP	0.50%	2,091,600	1,162,000	(110,084)	3,143,516	174,640
			8,970,329	1,162,000	(614,897)	9,517,432	679,453
			\$ 20,385,714	\$ 2,725,800	\$ (1,453,961)	\$ 21,657,554	\$ 1,592,848

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for internal service funds are included as part of the above totals for governmental activities. At year end \$3,271 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.

F. Leases & Other Operating Agreements

The City has an operating agreement with the Cascade Water Alliance for water capacity. The total cost for this operating agreement was \$200,000 for the year ending December 31, 2010. Future payments for the operating agreement are:

Cascade Water Alliance	
<u>Year</u>	<u>Amount</u>
1/31/2011	200,000
1/31/2012	200,000
1/31/2013	391,222
1/31/2014	391,222
1/31/2015	391,222
1/31/2016	391,222
1/31/2017	391,222
1/31/2018	391,222
	<u>\$ 2,747,332</u>

G. Interfund Balances and Transfers

Loans between funds are classified as interfund loans receivable or payable. Within the City, one fund may borrow from another when specifically authorized by City Council resolution. The activity and balances of interfund loans at December 31, 2010 are as follows:

<u>Lending Fund</u>	<u>Borrowing Fund</u>	Balance at Beginning of Year	New Loans	Repayments/ Adjustments	Balance at End of Year
Sewer Fund	Parks Capital Fund	\$ 1,200,872	\$ -	\$ (200,145)	\$ 1,000,727

The principal purpose of this interfund loan was the purchase of the Allen Yorke Park property. Of the \$1,000,727 due, \$200,145 is due within one year.

Several interfund transfers occurred during 2010:

1. A transfer of \$621,418 was made from the Seizure Fund to the General Government CIP Fund to reimburse debt service expenses;
2. A transfer of \$2,999,000 was made from the Water, Wastewater, and Stormwater Funds to the General Government CIP Fund to fund the Public Works Maintenance Facility;
3. A transfer of \$87,337 was made from the General Government CIP Fund to the Civic Center Fund to move rent revenues to the fund owning rental property;
4. A transfer of \$814,577 was made from the General Government CIP Fund to the Civic Center Fund to return a portion of a prior land acquisition reimbursement.

Interfund transfers during 2010 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>	Net Governmental Activities
Governmental Activities			
Seizure Fund	-	621,418	(621,418)
General Government CIP Fund	3,620,418	901,914	2,718,504
Civic Center CIP Fund	901,914	-	901,914
			<u>\$ 2,999,000</u>
Business-Type Activities			
Water Fund	-	1,700,000	(1,700,000)
Wastewater Fund	-	1,000,000	(1,000,000)
Stormwater Fund	-	299,000	(299,000)
			<u>\$ (2,999,000)</u>

H. Restricted Net Assets

The government-wide Statement of Net Assets reports \$167,654 and \$998,001 for amounts restricted for debt service. These amounts represent unspent debt proceeds for governmental activities and business-type activities, respectively.

I. Prior Period Adjustments

A prior period adjustment of \$191,798 is reflected in the Governmental Funds. This adjustment reflects capital asset additions.

NOTE 6 – POST EMPLOYMENT BENEFITS

A. Pension Plans

All City of Bonney Lake 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 Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

Plan Description

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

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 participating 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. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

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.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement 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 benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 members who retire 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 three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

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 AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or they may retire at age 55 with 10 years of service. Plan 3 members who retire 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 three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. 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 1,190 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2007:

Retirees and Beneficiaries Receiving Benefits	71,244
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	26,583
Active Plan Members Vested	105,447
Active Plan Members Nonvested	52,575
Total	255,849

Judicial Benefit Multiplier

Beginning January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to participate in the Judicial Benefit Multiplier Program (JBM). Justices and judges in PERS Plan 1 and 2 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5% multiplier. The benefit would be capped at 75% of AFC. The City of Bonney Lake has one employee enrolled in this program. Judges in PERS Plan 3 could elect a 1.6% of pay per year of service benefit, capped at 37.5% of average compensation.

Members who chose to participate in JBM would: accrue service credit at the higher multiplier beginning with the date of their election, be subject to the benefit cap of 75% of AFC, pay higher contributions, stop contributing to the Judicial Retirement Account (JRA), and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; continue to participate in JRA, if applicable; never be a participant in the JBM Program; and continue to pay contributions at the regular PERS rate.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

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 six percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. 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. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2009, were as follows:

Members Not Participating in JBM			
	<u>PERS - Plan 1</u>	<u>PERS - Plan 2</u>	<u>PERS - Plan 3</u>
Employer *	8.31%	8.31%	8.31%
Employee	6.00%	5.45%	**
* The employer rates include the employer administrative expense fee currently set at 0.16%.			
** Variable from 5% to 15% based on rate selected by the member			

Members Participating in JBM			
	<u>PERS - Plan 1</u>	<u>PERS - Plan 2</u>	<u>PERS - Plan 3</u>
Employer *	8.31%	8.31%	8.31%
Employee	12.26%	13.63%	7.5% **
* The employer rates include the employer administrative expense fee currently set at 0.16%.			
** Minimum rate			

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

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. 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. Membership in the system includes all full-time, fully compensated, local law enforcement officers, firefighters and, as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception.

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

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

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 FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 2 members are vested after the completion of 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 two percent of the FAS per year of service. The FAS is based on the highest consecutive 60 months. Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2007:

Retirees and Beneficiaries Receiving Benefits	9,085
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	633
Active Plan Members Vested	12,904
Active Plan Members Nonvested	3,708
Total	<u>26,330</u>

Starting on July 1, 2000, LEOFF Plan 1 employers and employees 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. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. 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 LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. 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 required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2008, were as follows:

	<u>LEOFF - Plan 1</u>	<u>LEOFF - Plan 2</u>
Employer *	0.16%	5.46%
Employee	0.00%	8.83%
* The employer rates include the employer administrative expense fee currently set at 0.16%.		

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

B. Other Post-Employment Benefits

1. Association of Washington Cities Employee Benefit Trust ("Trust")

Trust Description: In addition to the pension benefits described in Note 6, the City of Bonney Lake is a participating employer in the Association of Washington Cities (AWC) Employee Benefit Trust, a cost-sharing multiple-employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of participating employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and the nature of the medical and other benefits provided by the trust. The Trust issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. That report, along with a copy of the Trust document, may be obtained by writing to the Association of Washington Cities Employee Benefit Trust at 1076 Franklin Street, Olympia, WA 98501-1346 or calling 1-800-562-8981.

Funding Policy: The plan is administered by a trust or equivalent arrangement in which employer contributions to the trust are irrevocable; plan assets are dedicated to providing OPEB to retirees and their beneficiaries in accordance with the terms of the plan, and plan assets are legally protected from creditors of the employers or plan administrator.

In 2009, there were 274 employers enrolled in the AWC Employee Benefit Trust Membership. All the risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the employers. A single actuarial valuation covers all plan members, and the same contribution rate(s) apply to each employer.

The Trust provides that contribution requirements of participating employers and of participating employees, retirees, and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute as follows:

<u>Coverage Type</u>	<u>Monthly Cost</u>
Non-Medicare enrolled retiree only	\$715.00
Non-Medicare enrolled retiree + spouse	\$1,430.00
Medicare enrolled retiree + Non-Medicare enrolled spouse	\$1,286.00
Non-Medicare enrolled retiree + Medicare enrolled spouse	\$1,109.00
Medicare enrolled retiree + Medicare enrolled spouse	\$965.00

Participating employers are contractually required to contribute at a rate assessed each year by the Trust. The City's contributions to the Trust for the year ended December 31, 2009 were \$0, as the City has no participating retirees within the AWC Trust.

GASB reporting standards are required for Post-Employment Benefits Plans Other than Pension Plans, or OPEB. The AWC has chosen to adopt the reporting standards. All costs, liabilities, interest rates, and other factors have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account experience and reasonable expectations); and which, in combinations, offer the best estimate of anticipated experience.

2. Law Enforcement Officers and Firefighters (LEOFF)

Plan Description: As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977, under a defined benefit plan administered by the City. This plan is commonly referred to as LEOFF 1. The City provides LEOFF 1 post employment benefits for one retired law enforcement employee.

Under the LEOFF 1 healthcare reimbursements, the plan member has no required contributions. The City is required to pay all healthcare expenses incurred by LEOFF 1 retirees. The City's cost is reduced by any amounts retirees receive from Medicare or any other health plans. LEOFF 1 retirees may request reimbursement for healthcare expenses that are not paid by their primary healthcare plan.

Amendments to the plan may be made through State statute.

Membership: Membership in LEOFF 1 includes participants who joined the system by September 30, 1977. As of December 31, 2010, one City employee meets this requirement. This is considered a closed group. No new members are permitted.

Funding Policy: Funding for LEOFF 1 retiree healthcare costs is provided entirely by the City as required by RCW. The City's funding policy is based upon pay-as-you-go financing requirements. Retirees are not required to contribute any portion of the cost coverage.

Annual OPEB Cost and Net OPEB Obligation: The City's annual other post-employment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of fifteen years as of January 1, 2009.

The City was required to contribute \$21,971 (Annual Required Contribution, or ARC), but only contributed \$7,608 at December 31, 2010. For the City's single retired LEOFF 1 member, the City purchased health insurance from the United Benefit Trust. The retired law enforcement employee received a benefit contribution of \$634 per month, or \$7,608 per year, for retiree-only coverage. This differs from the Annual Required Contribution (ARC) because the plan is financed on a pay-as-you-go basis. The difference between the OPEB Costs and the required contribution is called the Net OPEB Obligation (NOO).

	Fiscal Year Ending 12/31/2010
Determination of Required Annual Contribution	
Normal Cost	\$ -
Amortization of Unfunded Actuarial Accrued Liability (UAAL)	21,971
Annual Required Contribution (ARC)	21,971
Determination of Net OPEB Obligation	
Annual Required Contribution (ARC)	21,971
Interest on Net OPEB Obligation	1,407
Net OPEB Obligation Amortization	(2,911)
Annual OPEB Cost	20,467
Contributions Made	(7,608)
Increase in Net OPEB Obligation	12,859
NET OPEB OBLIGATION - January 1, 2010	31,262
NET OPEB OBLIGATION - December 31, 2010	44,121

The City's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2010 is as follows:

	Annual OPEB Cost	Employer Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2010	20,467	7,608	37.17%	44,121
2009	21,787	6,852	31.45%	31,262
2008	23,179	6,852	29.56%	16,327

As of January 1, 2010, the plan was 0% funded. The accrued liability for benefits was \$235,963 and the actuarial valuation of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$235,963, which is reflected on the government-wide statement of net assets, governmental activities.

Methodology and Actuarial Assumptions: The City used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2007 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2007. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 10 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 7 – OTHER DISCLOSURES

A. 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 126 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$3 million per occurrence self insured layer, and \$12 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$15 million per occurrence subject to aggregate sub limits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

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

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

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. These revenues directly offset portions of the membership's annual assessment.

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.

In the prior three years, settlements did not exceed the City's insurance coverage.

B Contingencies and Commitments

The city's financial statements include all material liabilities.

In September 2008, the City received a claim for damages arising from a marine vessel accident occurring in 2006. This matter is still outstanding at 12/31/2010, with no action occurring in 2010. Although the outcome of this claim is not presently determinable, in the opinion of the City's

management, the resolution of this matter will not have a material adverse effect on the financial condition of the government.

There are no known current contingent liabilities to record; the pending arbitrage calculation discussed in the preceding paragraph may result in a liability; however, the amount and/or materiality are not known at this time.

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. City management believes that such disallowances, if any, will be immaterial.

The City is committed to spending the remaining unspent proceeds of the 2008 LTGO Civic Center Bond (\$167,654) and the 1999 Water and Sewer Revenue bond (\$998,001).

C. Subsequent Events

There are no subsequent events at the time of financial statement preparation.



ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

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Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
Director of Performance Audit
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Director for Legal Affairs
Director of Quality Assurance
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free Citizen Hotline

Brian Sonntag, CGFM
Ted Rutt
Doug Cochran
Jerry Pugnetti
Chuck Pfeil, CPA
Larisa Benson
Jim Brittain, CPA
Jan Jutte, CPA, CGFM
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Washington State Auditor's Office
Accountability Audit Report

City of Bonney Lake
Pierce County

Report Date
March 9, 2012

Report No. 1007585

Issue Date
July 23, 2012



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

July 23, 2012

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

Report on Accountability

We appreciate the opportunity to work in cooperation with your City to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on the City of Bonney Lake's accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Pierce County
March 9, 2012

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Audit Summary

City of Bonney Lake
Pierce County
March 9, 2012

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the City of Bonney Lake from January 1, 2010 through December 31, 2010.

We evaluated internal controls and performed audit procedures on the activities of the City. We also determined whether the City complied with state laws and regulations and its own policies and procedures.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. The following areas were examined during this audit period:

- Billings/receivables
- Cash-receipting
- Open public meeting minutes
- Procurement (bidding/prevaling wage)
- Budget compliance
- Payroll/personnel
- Court financial operations
- Payments/expenditures
- Inter-fund transactions/balances
- Police – financial operations/custody of evidence
- Use of restricted funds

RESULTS

In most areas, the City complied with state laws and regulations and its own policies and procedures.

However, we noted certain matters that we communicated to City management. We appreciate the City's commitment to resolving those matters.

Related Reports

**City of Bonney Lake
Pierce County
March 9, 2012**

FINANCIAL

Our opinion on the City's financial statements is provided in a separate report, which includes the City's financial statements.

Description of the City

**City of Bonney Lake
Pierce County
March 9, 2012**

ABOUT THE CITY

The City of Bonney Lake, incorporated in 1949, currently serves approximately 17,500 citizens in Pierce County. The City provides a range of services including police protection, public works, utilities, street maintenance, planning and permits, senior services and parks and recreation, as well as a Municipal Court. The City contracts with other public and private entities for garbage, wastewater treatment, jail, emergency dispatch and animal control services.

An elected, seven-member City Council governs the City. The Council elects one of its members to serve as Mayor. The Council appoints management to oversee the City's daily operations as well as its 159 employees. For the 2009-2010 biennium, the City operated on a budget of approximately \$86 million.

ELECTED OFFICIALS

These officials served during the audit period:

Mayor and City Council:	Neil Johnson, Mayor Randy McKibbin Dan Swatman Mark Hamilton James Rackley Laurie Carter (through December 2011) Donn Lewis Dan Decker (through December 2011) Tom Watson (effective January 2012) Katrina Minton-Davis (effective January 2012)
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APPOINTED OFFICIALS

City Administrator	Don Morrison
Administrative Services Clerk/City Clerk	Harwood (Woody) Edvalson
Director of Public Works	Daniel Grigsby
Police Chief	Mike Mitchell (through August 2011)
Interim Police Chief	Dana Powers (effective August 2011)
Community Services Director	Gary Leaf
Court Administrator	Kathy Seymour
Director of Planning & Community Development	John Vodopich
Chief Financial Officer	Al Juarez
City Attorney	Dionne & Rorick LLP

CITY CONTACT INFORMATION

Address: City of Bonney Lake
P.O. Box 7380
Bonney Lake, WA 98391

Phone: (253) 862-8602

Website: www.ci.bonney-lake.wa.us

AUDIT HISTORY

We audit the City annually. We reported one financial statement finding for the City in each of the 2007 and 2008 audits regarding inadequate controls to ensure accurate accounting and financial reporting. The finding was not resolved during our 2009 audit and is repeated in the 2010 audit.