

Washington State Auditor's Office
Financial Statements Audit Report

City of Bonney Lake
Pierce County

Audit Period
January 1, 2005 through December 31, 2005

Report No. 72723

Issue Date
June 1, 2007



Washington _____
State Auditor

Brian Sonntag



**Washington State Auditor
Brian Sonntag**

June 1, 2007

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

Report on Financial Statements

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

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

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Pierce County
January 1, 2005 through December 31, 2005**

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

**City of Bonney Lake
Pierce County
January 1, 2005 through December 31, 2005**

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, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 30, 2007.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

COMPLIANCE AND OTHER MATTERS

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

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

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

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 30, 2007

Independent Auditor's Report on Financial Statements

City of Bonney Lake Pierce County January 1, 2005 through December 31, 2005

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, 2005, which collectively comprise the City's basic financial statements as listed on page 5. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bonney Lake, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General and Park Impact funds, 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.

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

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

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 30, 2007

Financial Section

**City of Bonney Lake
Pierce County
January 1, 2005 through December 31, 2005**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2005

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2005

Statement of Activities – 2005

Balance Sheet – Governmental Funds – 2005

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2005

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2005

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund – 2005

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Park Impact Fund – 2005

Statement of Net Assets – Proprietary Funds – 2005

Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds – 2005

Statement of Cash Flows – Proprietary Funds – 2005

Statement of Fiduciary Net Assets – Agency Funds – 2005

Notes to the Financial Statements – 2005

Management's Discussion and Analysis

As management of the City of Bonney Lake, we offer readers of the City of Bonney Lake's financial statements this narrative overview and analysis of the financial activities of the City of Bonney Lake for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 2-4 of this report. All amounts, unless other-wise indicated, are expressed in thousands of dollars.

Financial Highlights

- Total assets of the City of Bonney Lake exceeded its liabilities by \$81,612. Of this amount, \$8,601 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 \$12,774: Approximately 51% of this increase is due to land acquisition for park expansion and equipment purchases for law enforcement and public works activities and the other 49% of the increase is attributable to system development charges for the water and sewer utility.
- As of the close of the current fiscal year, the City of Bonney Lake's governmental funds reported combined ending fund balances of \$23,301, an increase of \$6,512 in comparison with the prior year. Primarily the increase was due to the collection of special revenues for Park Impact fees, Transportation Impact fees, and Traffic Mitigation fees, a significant portion of this increase, \$6,206, is restricted for capital projects.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$4,722, or 44 percent of total General Fund expenditures.
- The total debt increased by \$9,870 (41 percent) during the current fiscal year. The increase was attributable to the issuance of \$5,888 in new Public Works Trust Fund Loans and a low interest note of \$5,777 from the City of Tacoma's Public Utility for purchase of water for the Water and Sewer Fund

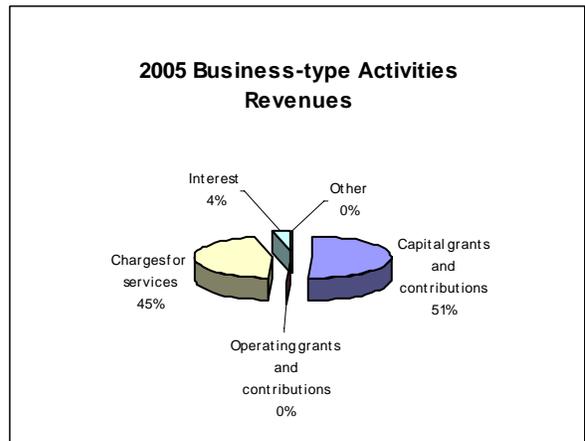
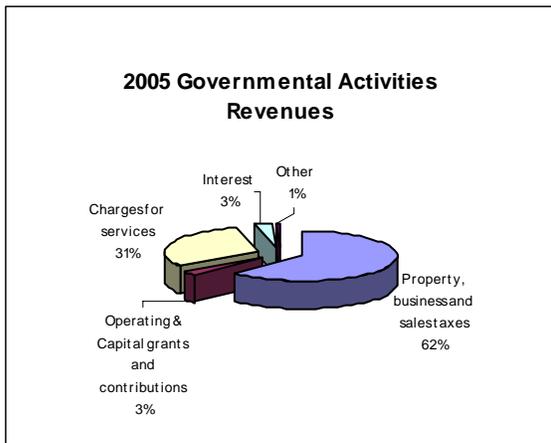
Overview of the Financial Statements

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

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

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

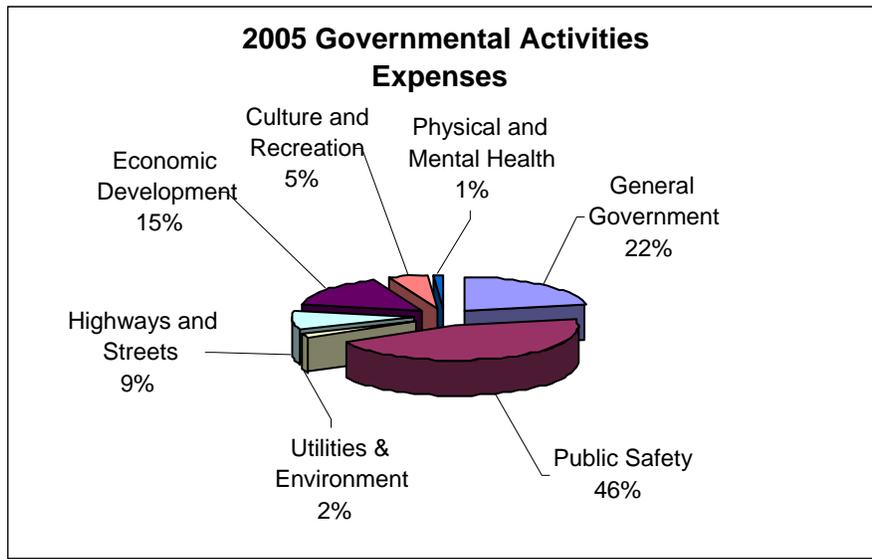
The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues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



Both 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 primarily supported by taxes and intergovernmental revenues. Business-type activities, primarily utilities, are intended to recover most if not all of their costs through user fees and charges. City of Bonney Lake utilities include the water system distribution system, the sewer collection system and the storm water collection system.

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

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



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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Bonney Lake maintains sixteen 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, Parks Impact Fund and the Municipal Capital Improvement Fund, both of which

are considered to be major funds. Data from the other thirteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

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

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34-65 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Bonney Lake's financial results. Combining and individual fund statements and schedules can be found on pages 66-97 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Bonney Lake, assets exceeded liabilities by \$81,612 at the close of the 2005 fiscal year.

The largest portion of the City of Bonney Lake's net assets (61 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, construction in progress, and intangible assets such as water rights and sewer capacity); less any related debt used to acquire those assets that are still outstanding. The City of Bonney Lake uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Bonney Lake's Net Assets						
	Governmental		Business-type		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$12,010	\$10,491	\$23,123	\$21,521	\$35,133	\$32,012
Capital assets, net of accumulated depreciation	15,891	9,166	64,281	51,483	80,172	60,649
Total assets	27,901	19,657	87,404	73,004	115,305	92,661
Long-term liabilities	3,633	2,176	26,305	17,517	29,938	19,693
Other liabilities	967	691	2,788	3,437	3,755	4,128
Total liabilities	4,600	2,867	29,093	20,954	33,693	23,821
Net assets:						
Invested in capital assets, net of related debt	14,089	7,075	35,571	29,515	49,660	36,590
Restricted	1,826	6,206	21,525	14,740	23,351	20,946
Unrestricted	7,386	3,508	1,215	7,794	8,601	11,302
Total net assets	\$23,301	\$16,789	\$58,311	\$52,049	\$81,612	\$68,838

The remaining balance of *unrestricted net assets* (\$8,601) may be used to meet the government's ongoing obligations to citizens and creditors.

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

There was an increase of \$6,785 in restricted net assets reported in connection with the City's business-type activities. 2005 set a record for growth within the City, as a result of this growth the City collected development fees, which accounts for the majority of the restricted net assets.

City of Bonney Lake's Changes in Net Assets						
	Governmental		Business-type		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues:						
Charges for services	\$4,122	\$3,279	\$6,950	\$7,268	\$11,072	\$10,547
Operating grants and contributions	201	245			201	245
Capital grants and contributions		27	7,806	8,729	7,806	8,756
General revenues:						
Property Taxes	2,148	2,017			2,148	2,017
Sales Taxes	2,946	2,704			2,946	2,704
Other Taxes	3,358	2,654			3,358	2,654
Grants and contributions not restricted	155	208			155	208
Other	513	487	616	320	1,129	807
Total revenues	13,443	11,621	15,372	16,317	28,815	27,938
Expenses:						
General government	1,744	1,920			1,744	1,920
Public safety	3,518	3,556			3,518	3,556
Utilities and environment	165	210			165	210
Highways and streets	675	433			675	433
Economic development	1,201	1,029			1,201	1,029
Culture and recreation	399	486			399	486
Interest on long-term debt	106	127	614	399	720	526
Water/Sewer			7,998	6,201	7,998	6,201
Other enterprise funds			417	1,147	417	1,147
Total expenses	\$7,808	\$7,761	\$9,029	\$7,747	\$16,837	\$15,508

City of Bonney Lake's Changes in Net Assets (Continued)						
	Governmental		Business-type		Total	
	2005	2004	2005	2004	2005	2004
Total revenues	13,443	11,621	15,372	16,317	28,815	27,938
Total expenses	7,808	7,761	9,029	7,747	16,837	15,508
Increase in net assets before transfers	5,635	3,860	6,343	8,570	11,978	12,430
Transfers/Contributions	876	252	(81)	(252)	795	0
Increase in net assets	6,511	4,112	6,262	8,318	12,773	12,430
Net assets – beginning	16,790	12,678	52,049	43,731	68,839	56,409
Net assets - ending	\$23,301	\$16,790	\$58,311	\$52,049	\$81,612	\$68,839

Governmental-type activities: For the past few years, the City of Bonney Lake has been one of the fastest growing cities in the State of Washington. Governmental-type activities increased by \$6,512, accounting for 50.9 percent of the total growth in the City's net assets. Public safety (law enforcement) and economic development (Building and Planning Departments) have been the first to respond to the increased demands because of the growth. Sales tax revenue has been out-performing the property tax revenue in the last few years, due to new construction and the influx of retail businesses. As long as the interest rate stays low, the City expects the growth to continue for the next few years. Nevertheless, the City anticipates a slow down in the growth of sales tax revenue.

Business-type activities. Business-type activities increased the City of Bonney Lake's net assets by \$6,262, accounting for 49 percent of the total growth in the City's net assets. The majority of this increase is due to capital contribution. Capital contributions emerged as a major revenue source for the Water and Sewer Fund during the current fiscal year and prior fiscal year, producing \$7,806 and \$8,729 in revenue, respectively. This increase is the result of legislation passed by the City Council establishing mandatory system development charges (tap fees) and the construction that is occurring within the City for residential housing and a new business core. The system development charges for water increased substantially starting on January 1, 2005. Many developers took advantage and paid their system development charges for water during the last few days of 2004. The City expects a slightly lower total capital contribution in the future. Tap fees are set significantly in excess of actual connection costs and must use for capital purposes or debt service.

Charges for services for business-type activities decreased slightly in 2005 compared to the prior year, while the expenses increased by 10 percent. With the additional operations demands because of growth and the additional debt service demands because Public Work Trust Fund Loans will be providing additional funding for the water and sewer projects, the City Council raised the water and sewer rates in 2005. Water rates will be increased by 15% each year for 2006 and 2007. Sewer rates were increased by the cost of projected inflation each year over the next three years.

Financial Analysis of the Government's Funds

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

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

As of the end of the 2005 fiscal year, the City of Bonney Lake's governmental funds reported combined ending fund balances of \$8,384, a decrease of \$8,405 in comparison with the prior year. Approximately 11 percent of the ending fund balance total (\$946) constitutes *reserved or designated fund balance* to indicate that it is not available for new

spending because it has already been committed to pay for capital improvement projects and payment for the property purchase to expand parks. The remaining 89 percent of this total amount (\$7,438) constitute unreserved, undesignated fund balance.

The General Fund is the chief operating fund of the City of Bonney Lake. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$4,722. Reserved or designated fund balance at year end was \$1,630 for a total fund balance of \$6,352. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 44 percent of total General Fund expenditures and total fund balance represents 60 percent of total General Fund expenditures.

During the current fiscal year, the fund balance of the City of Bonney Lake's General Fund increased by \$2,504. Key factors in this growth are as follows:

- An increase in the local tax collection of \$445 or 10% due to the growth the City is experiencing.
- The General Fund received transfers in from Parks Impact Fund for purchase of property for park expansion.

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

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$958. The total growth in net assets for 2005 was \$5,940. Other factors concerning the finances of this fund have already been addressed in the discussion of the City of Bonney Lake's business-type activities.

General Fund Budgetary Highlights

During the year, there was an increase of \$7,846 in revenue appropriations and an increase of \$11,459 in expenditure appropriations between the original and final amended budget. In the adopted budget ordinance, the City appropriates total expenditures, other financing uses, and ending fund balance as one expenditure total. During the year, some of the appropriated ending fund balance was transferred to expenditures. The total amount reclassified was \$248, which is considered to be insignificant amount.

Capital Asset and Debt Administration

Capital assets. The City of Bonney Lake's investment in capital assets for its governmental and business-type activities as of December 31, 2005, amounts to \$78,398 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways, and bridges, and intangible assets such as sewer capacity and water rights. The total increase in the City of Bonney Lake's investment in capital assets for the current fiscal year was 38 percent (a significant increase of 74 percent for governmental activities and a 31 percent increase for business-type activities).

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

- The City acquired land for park expansion (\$5,064).
- Equipment purchases for law enforcement and public works activities.
- Replacement of the City's oldest and key water mains (\$1,672).
- Work started on the Peaking Storage Reservoir – At-Grade Storage Tank (\$1,810).
- New water source with Tacoma Public Utilities – Intertie, system development charges and water main (\$3,468).
- Ballpark Well Treatment Facility and water mains (\$3,597).
- Various system additions and improvements for the Water and Sewer Fund at a cost of \$1,585.

City of Bonney Lake's Changes in Capital Assets

(net of depreciation)						
	Governmental		Business-type		Total	
	2005	2004	2005	2004	2005	2004
Land	8,397	3,333	491	491	8,888	3,824
Building	2,153	2,261	169	173	2,322	2,434
Improvements other than building	362	392	31,602	33,607	31,964	33,999
Machinery and equipment	2,530	1,579	268	1,168	2,798	2,747
Infrastructure	2,443	1,591			2,443	1,591
Intangible assets			17,481	8,262	17,481	8,262
Construction in progress			12,502	4,136	12,502	4,136
Total	15,885	9,156	62,513	47,837	78,398	56,993

Additional information on the City of Bonney Lake's capital assets can be found in Note 6 on pages 51-54 of this report.

Long-term debt. At the end of the current fiscal year, the City of Bonney Lake had a total bonded debt outstanding of \$31,708. All special assessment debt was paid in full by the end of the current year. Of this amount, \$1,826 comprises debt backed by the full faith and credit of the government. The remainder of the City of Bonney Lake's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

City of Bonney Lake's Outstanding Debt						
General Obligation, Revenue Bonds, Public Works Trust Fund Loans, and Other Debt						
	Governmental		Business-type		Total	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	\$1,815	\$2,065			\$1,815	\$2,065
PWTF Loans	11	16	\$17,546	\$12,304	17,557	12,320
Interfund Loan Payable	1,965				1,965	
Loan – Tacoma Pub. Util.			4,621		4,621	
Special Assessment Debt	5	0			5	0
Revenue Bonds			5,745	6,035	5,745	6,035
Total	\$3,796	\$2,081	\$27,912	\$18,339	\$31,708	\$20,420

During the current fiscal year, the City of Bonney Lake's total debt increased by \$11,288 (55 percent). This increase was due to issuance of Public Works Trust Fund Loans in the amount of \$5,242, a loan with Tacoma Public Utilities for new water source in the amount of \$4,621 and an interfund loan for the purchase of property for park expansion in the amount of \$1,965.

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

The 1997 General Obligation Bond was approved with a 3/5 vote of the people. State statutes limit the amount of general obligation debt a governmental entity may issue to 2 1/2 percent of its total assessed valuation with a 60% majority vote of the people. The current debt limitation for the City of Bonney Lake is \$35,884, which is significantly in excess of the City of Bonney Lake's outstanding general obligation debt.

Additional information on the City of Bonney Lake's long-term debt can be found in note 9 on pages 59-63 of this report.

Economic Factors and Next Year's Budgets and Rates

Unemployment Rates			
	Mar 06	Mar 05	Mar 04
Pierce County	5.2%	6.4%	8.0%
Washington	5.2%	6.0%	7.2%
United States	4.8%	5.4%	6.0%
Source: Employment Security website – Bureau of Labor and Statistics and Washington State Labor Market and Economic Analysis (unemployment rates not seasonally adjusted)			

The unemployment rate for the City of Bonney Lake was estimated at 5.2 percent, in March 2006, which is a decrease from a rate of 6.4 percent in March 2005. This unemployment rate of 5.2% is the same as the Pierce County and the state's average unemployment rate. It is higher than the national average rate of 4.8 percent in March 2006.

Consumer Price Index – All Urban Consumers				
	Indexes		% Annual Average Change	
	Feb 06	Feb 05	2006	2005
US City Average	198.7	191.8	3.2%	3.4%
Seattle-Tacoma-Bremerton , WA MSA	203.6	197.6	1.3%	2.1%
Source: U.S. Department of Labor, Bureau of Labor Statistics				

Inflationary trends in the region are lower than the annual average change compared to the national indexes.

All of these factors were considered in preparing the City of Bonney Lake's budget for the 2006 fiscal year and the 2007/2008 biennial budget.

During the current fiscal year, unreserved, undesignated fund balance in the General Fund increased to \$4,722. During each fiscal year, the City of Bonney Lake has appropriated the entire ending fund balances for this fund and all other funds for spending in the 2005 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes or charges in subsequent fiscal years.

The Water and Sewer Fund's rates were increased for the 2006 and 2007 budget year. The water rates were increased by an average of 15 percent for all customers, while the average increase in the sewer rates was 1.5 percent. These rates increase this same percentage for each of the next three years. The water and sewer rates affected both residential and industrial consumers by approximately the same percentage. These increases were necessary to finance debt service on the new debt issued during the current fiscal year by the Water and Sewer Fund. In addition, the Washington State Public Works Board has awarded the City of Bonney Lake additional Public Works Trust Fund Loans adding another \$1,500 in debt which may be subsequently issued by the water and sewer operation in the next few years.

Requests for Information

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

City of Bonney Lake
Statement of Net Assets
December 31, 2005
(amounts expressed in dollars)

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash & cash equivalents	\$ 10,793,601	\$ 21,446,471	\$ 32,240,072
Receivables (net of allowance for uncollectibles)	1,198,815	997,522	2,196,337
Interfund loan receivable		196,538	196,538
Inventories		73,821	73,821
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	17,865	408,728	426,593
Non-current assets:			
Special assessment receivable	5,441		5,441
Interfund loan receivable		1,768,838	1,768,838
Capital assets not being depreciated:			
Land	8,396,946	490,813	8,887,759
Construction in progress		12,501,772	12,501,772
Capital assets net of accumulated depreciation:			
Buildings and system	2,153,716	169,053	2,322,769
Improvements other than buildings	362,037	31,601,609	31,963,646
Machinery and equipment	2,529,775	268,202	2,797,977
Infrastructure	2,442,555		2,442,555
Intangible assets		17,480,980	17,480,980
Total assets	<u>27,900,751</u>	<u>87,404,347</u>	<u>115,305,098</u>
LIABILITIES			
Accounts payable and other current liabilities	481,365	781,431	1,262,796
Accrued interest payable	7,714	305,300	313,014
Due within one year			
Special assessments - deferred revenue	5,441		5,441
Bonds, public works trust fund loans, and compensated absences payable	275,400	1,701,802	1,977,202
Interfund loan payable	196,538		196,538
Noncurrent liabilities:			
Interfund loan payable	1,768,838		1,768,838
Bonds, public works trust fund loans, and compensated absences payable	1,864,282	26,304,616	28,168,898
Total liabilities	<u>4,599,578</u>	<u>29,093,149</u>	<u>33,692,727</u>
NET ASSETS			
Invested in capital assets, net of related debt	14,089,229	35,570,936	49,660,165
Restricted	1,826,268	21,524,816	23,351,084
Unrestricted	7,385,676	1,215,446	8,601,122
Total net assets	<u>\$ 23,301,173</u>	<u>\$ 58,311,198</u>	<u>\$ 81,612,371</u>

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

City of Bonney Lake
Statement of Activities
For the Year Ended December 31, 2005
(amounts expressed in dollars)

Functions/Programs: Primary government:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 1,743,575	\$ 1,471,831	\$ 36,965	\$	\$ -234,779	\$	\$ -234,779
Public safety	3,517,885		160,828		-3,357,057		-3,357,057
Utilities and environment	164,955				-164,955		-164,955
Highways and streets	674,906	1,077,335			402,429		402,429
Economic development	1,200,524	1,285,844	3,000		88,320		88,320
Culture and recreation	397,023	286,540			-110,483		-110,483
Physical and mental health	3,122				-3,122		-3,122
Total governmental activities	<u>7,701,990</u>	<u>4,121,550</u>	<u>200,793</u>	<u>0</u>	<u>-3,379,647</u>	<u>0</u>	<u>-3,379,647</u>
Business-type activities:							
Water and sewer	7,998,505	6,594,638		7,351,454		5,947,587	5,947,587
Other enterprise funds	416,592	355,735		454,737		393,880	393,880
Total business-type activities	<u>8,415,097</u>	<u>6,950,373</u>	<u>0</u>	<u>7,806,191</u>	<u>0</u>	<u>6,341,467</u>	<u>6,341,467</u>
Total primary government	<u>\$ 16,117,087</u>	<u>\$ 11,071,923</u>	<u>\$ 200,793</u>	<u>\$ 7,806,191</u>	<u>\$ -3,379,647</u>	<u>\$ 6,341,467</u>	<u>\$ 2,961,820</u>
General revenues:							
Property taxes					2,147,567		2,147,567
Sales taxes					2,946,335		2,946,335
Real estate excise taxes					1,384,444		1,384,444
Private utility taxes					1,084,868		1,084,868
Interfund utility taxes					539,939		539,939
State entitlements - not restricted to specific programs					154,642		154,642
Motor fuel excise taxes					300,288		300,288
Gaming taxes					49,233		49,233
Forest excise tax - private timber					293		293
Other revenues							
Other income					130,023	10,195	140,218
Unrestricted investment earnings					383,254	605,828	989,082
Proceeds from sale of asset					380		380
Transfers					80,810	-80,810	0
Contributions - Rolling stock					554,677		554,677
Contributions - Depreciation					214,805		214,805
Contributions Other					26,242		26,242
General expenses:							
Interest on long-term debt					-106,161	-613,807	-719,968
Amortization of bond discount						-1,020	-1,020
Total general revenues and transfers					<u>9,891,639</u>	<u>-79,614</u>	<u>9,812,025</u>
Change in net assets					<u>6,511,992</u>	<u>6,261,853</u>	<u>12,773,845</u>
Total net assets - beginning					<u>16,789,181</u>	<u>52,049,345</u>	<u>68,838,526</u>
Total net assets - ending					<u>\$ 23,301,173</u>	<u>\$ 58,311,198</u>	<u>\$ 81,612,371</u>

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

**City of Bonney Lake
Balance Sheet
Governmental Funds
December 31, 2005**
(amounts expressed in dollars)

	<u>General Fund</u>	<u>Park Impact Fund</u>	<u>Municipal Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 4,298,368	\$ 469,215	\$ 1,403,352	\$ 3,435,026	\$ 9,605,961
Receivables:					
Taxes	358,635		265,298	1,261	625,194
Customer accounts	66,405			10,174	76,579
Interest receivable	5,934	528	1,575	3,905	11,942
Interfund loan receivable	1,630,457				1,630,457
Due from other governments	429,859			53,941	483,800
Restricted assets:					
Equity in pooled cash and investments				17,865	17,865
Total assets	<u>6,789,658</u>	<u>469,743</u>	<u>1,670,225</u>	<u>3,522,172</u>	<u>12,451,798</u>
 LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	124,442			26,381	150,823
Due to other governmental units	18,130				18,130
Deposits payable - restricted	136,043				136,043
Deferred revenue - property taxes	104,986			7,554	112,540
Deferred revenue - other	53,948				53,948
Interfund loan payable					
Due within one year		359,583			359,583
Due in more than one year		3,236,250			3,236,250
Total liabilities	<u>437,549</u>	<u>3,595,833</u>	<u>0</u>	<u>33,935</u>	<u>4,067,317</u>
Fund balances:					
Reserved for:					
Loan receivable	1,630,457				1,630,457
Debt service				238,435	238,435
Pledged revenues					0
Construction of capital projects			1,670,225	532,750	2,202,975
Unreserved, undesignated reported in:					
General fund	4,721,652				4,721,652
Special revenue funds		-3,126,090		2,717,052	-409,038
Total fund balances	<u>6,352,109</u>	<u>-3,126,090</u>	<u>1,670,225</u>	<u>3,488,237</u>	<u>8,384,481</u>
Total liabilities and fund balances	<u>\$ 6,789,658</u>	<u>\$ 469,743</u>	<u>\$ 1,670,225</u>	<u>\$ 3,522,172</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore not reported in the fund	14,111,177
Internal service funds are used by management to charge the cost of equipment repairs, maintenance and insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.	2,951,686
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the funds.	-1,825,800
Compensated absences are not due and payable in the current period and therefore not reported in the funds.	-312,657
Interest accrual on long-term liabilities	-7,714
Net assets of governmental activities	<u>\$ 23,301,173</u>

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

City of Bonney Lake
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2005
(amounts expressed in dollars)

	General Fund	Park Impact Fund	Municipal Capital Improvement Fund	Other Governmental Fund	Total
REVENUES					
Taxes:					
Property	\$ 1,793,011	\$	\$	\$ 354,556	\$ 2,147,567
Retail sales & use taxes	2,946,335				2,946,335
Real estate excise tax			1,384,445		1,384,445
Other taxes	1,674,332				1,674,332
Licenses and permits	1,285,844				1,285,844
Intergovernmental	355,435			300,288	655,723
Charges for services	269,504	286,540		1,077,335	1,633,379
Fines and forfeitures	424,774			777,553	1,202,327
Special assessments				19,736	19,736
Miscellaneous:					
Interest	183,655	11,088	33,411	117,164	345,318
Other	108,638		13,200	372	122,210
Total revenues	9,041,528	297,628	1,431,056	2,647,004	13,417,216
EXPENDITURES					
Current:					
General government services	2,255,079				2,255,079
Public safety	2,958,297			106,645	3,064,942
Utilities and environment	185,435				185,435
Highway and streets				453,568	453,568
Economic environment	1,259,247				1,259,247
Culture and recreation	397,023				397,023
Physical and mental health	3,122				3,122
Debt service:					
Principal				255,400	255,400
Interest				105,161	105,161
Capital Outlay:					
Highways and streets				887,776	887,776
Other	3,587,215		1,588,926	93,194	5,269,335
Total expenditures	10,645,418	0	1,588,926	1,901,744	14,136,088
Excess(deficiency) of revenues over (under) expenditures	-1,603,890	297,628	-157,870	745,260	-718,872
OTHER FINANCING SOURCES (USES)					
Transfers in:	4,810,641			780,587	5,591,228
Sale of capital assets	380				380
Transfers out:	-703,379	-3,584,857	-175,000	-1,153,323	-5,616,559
Total other financing sources and (uses)	4,107,642	-3,584,857	-175,000	-372,736	-24,951
Net change in fund balances	2,503,752	-3,287,229	-332,870	372,524	-743,823
Fund balances - beginning	3,848,357	161,139	2,003,095	3,115,713	9,128,304
Fund balances - ending	\$ 6,352,109	\$ -3,126,090	\$ 1,670,225	\$ 3,488,237	\$ 8,384,481

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

City of Borney Lake
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended December 31, 2005
(amounts expressed in dollars)

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

Net change in fund balances - total governmental funds (page 26)	\$ -743,823
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	6,157,111
The repayment of principal on long-term debt consumes the current financial resources of government funds but has no effect on net assets.	255,400
Internal service funds are used by management to charge cost of equipment repair, maintenance and insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	45,749
In addition, the internal transfer between the internal service funds has been eliminated.	24,464
The City elected to use a full-cost allocation approach among functions, for "centralized" expenses, which include an administrative overhead. The statement of activities has been modified by the duplication reported in the combining statements.	773,091
Change in net assets of governmental activities (page 24):	\$ <u><u>6,511,992</u></u>

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

City of Bonney Lake
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended December 31, 2005
(amounts expressed in dollars)

	Budgeted Amounts		General Fund	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 1,788,982	\$ 1,788,982	\$ 1,793,011	\$ 4,029
Retail sales & use taxes	2,828,000	2,828,000	2,946,335	118,335
Other taxes	1,473,084	1,473,084	1,674,332	201,248
Licenses and permits	688,390	688,390	1,285,844	597,454
Intergovernmental	450,609	450,609	355,435	-95,174
Charges for services	84,680	84,680	269,504	184,824
Fines and forfeitures	430,175	430,175	424,774	-5,401
Miscellaneous:				
Interest	42,500	42,500	183,655	141,155
Other	78,100	78,100	108,638	30,538
Total revenues	7,864,520	7,864,520	9,041,528	1,177,008
EXPENDITURES				
Current:				
General government services	2,268,556	2,268,556	2,255,079	13,477
Public safety	3,077,795	3,077,795	2,958,297	119,498
Utilities and environment	299,971	299,971	185,435	114,536
Highway and streets				
Economic environment	1,312,878	1,487,872	1,259,247	228,625
Culture and recreation	417,461	539,515	397,023	142,492
Physical and mental health	2,800	2,800	3,122	-322
Debt Service				
Principal City Hall	553,100	553,100	0	553,100
Capital Outlay				
Park property	0	3,595,833	3,587,215	8,618
Total expenditures	7,932,561	11,825,442	10,645,418	1,180,024
Excess(deficiency) of revenues over (under) expenditures	-68,041	-3,960,922	-1,603,890	2,357,032
OTHER FINANCING SOURCES (USES)				
Transfers in:	835,901	5,120,207	4,810,713	-309,494
Sale of capital assets	0	0	308	308
Transfers out:	-587,917	-706,427	-703,379	3,048
Total other financing sources and (uses)	247,984	4,413,780	4,107,642	-306,138
Net change in fund balances	179,943	452,858	2,503,752	2,050,894
Fund balances - beginning	2,762,053	2,762,053	3,848,357	1,086,304
Fund balances - ending	\$ 2,941,996	\$ 3,214,911	\$ 6,352,109	\$ 3,137,198

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

City of Bonney Lake
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Parks Impact Fund
For the Year Ended December 31, 2005
(amounts expressed in dollars)

	Budgeted Amounts		Parks Impact Fund	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for services	\$ 465,000	\$ 465,000	\$ 286,540	\$ -178,460
Miscellaneous:				
Interest		11,088	11,088	11,088
Total revenues	465,000	465,000	297,628	-167,372
EXPENDITURES				
Debt service:				
Principal				0
Interest				0
Capital Outlay:				
Highways and streets				0
Other				0
Total expenditures	0	0	0	0
Excess(deficiency) of revenues over (under) expenditures	465,000	465,000	297,628	-167,372
OTHER FINANCING SOURCES (USES)				
Transfers in:		3,595,833		-3,595,833
Transfers out:	0	-3,595,833	-3,584,857	10,976
Sale of capital assets				0
Total other financing sources and (uses)	0	0	-3,584,857	-3,584,857
Net change in fund balances	465,000	465,000	-3,287,229	-3,752,229
Fund balances - beginning	75,000	75,000	161,139	86,139
Fund balances - ending	\$ 540,000	\$ 540,000	\$ -3,126,090	\$ -3,666,090

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

**City of Bonney Lake
Statement of Net Assets
Proprietary Funds
December 31, 2005**
(amounts expressed in dollars)

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water and Sewer	Nonmajor Enterprise Funds	Total	
ASSETS				
Current assets:				
Cash & cash equivalents	\$ 21,227,306	\$ 219,165	\$ 21,446,471	\$ 1,187,640
Restricted cash, cash equivalents and investments:				
Deposits	394,554	14,174	408,728	
Accounts receivable (net of allowance for uncollectibles)	870,856	43,283	914,249	
Due from other governmental units	58,735		58,735	
Interest receivable	24,276	262	24,538	1,300
Interfund loan receivable - current	196,538		196,538	
Inventories	73,621		73,621	
Total current assets	<u>22,846,186</u>	<u>276,894</u>	<u>23,123,080</u>	<u>1,188,940</u>
Noncurrent assets:				
Interfund loan receivable	1,768,838		1,768,838	
Capital assets:				
Land	490,813		490,813	
Buildings and system	296,617		296,617	
Improvements other than buildings	44,301,866	1,480,168	45,782,134	
Machinery and equipment	832,903		832,903	
Construction in progress	12,501,772		12,501,772	2,892,022
Intangible asset				
Sewer capacity	14,679,779		14,679,779	
Water rights	5,776,598		5,776,598	
Less accumulated depreciation and amortization	(17,745,646)	(102,541)	(17,848,187)	-1,118,170
Total capital assets (net of accumulated depreciation)	<u>61,134,802</u>	<u>1,377,627</u>	<u>62,512,429</u>	<u>1,773,852</u>
Total noncurrent assets	<u>62,903,640</u>	<u>1,377,627</u>	<u>64,281,267</u>	<u>1,773,852</u>
Total assets	<u>85,749,826</u>	<u>1,654,521</u>	<u>87,404,347</u>	<u>2,962,792</u>
LIABILITIES				
Current liabilities:				
Accounts payable	686,546	4,288	690,835	9,881
Deposits payable	75,150	15,446	90,596	
Accrued interest payable	305,300		305,300	
Current portion of principal payments	1,701,802		1,701,802	
Total current liabilities	<u>2,768,798</u>	<u>19,736</u>	<u>2,788,533</u>	<u>9,881</u>
Noncurrent liabilities:				
Compensated absences	110,678		110,678	1,225
Revenue bonds payable (net on unamortized discounts and deferred amount on refunding)	5,428,633		5,428,633	
Public works trust fund loans payable	16,605,955		16,605,955	
Contract payable for purchase of water rights	4,159,150		4,159,150	
Total noncurrent liabilities	<u>26,304,616</u>	<u>-</u>	<u>26,304,616</u>	<u>1,225</u>
Total liabilities	<u>29,073,414</u>	<u>19,736</u>	<u>29,093,149</u>	<u>11,106</u>
NET ASSETS				
Invested in capital assets, net of related debt	34,193,309	1,377,627	35,570,936	1,773,852
Restricted for capital assets acquisition or debt service	19,559,440		19,559,440	880,481
Restricted for interfund loan receivable	1,965,376		1,965,376	
Unrestricted	958,287	257,159	1,215,446	297,343
Total net assets	<u>\$ 56,676,412</u>	<u>\$ 1,634,786</u>	<u>\$ 58,311,198</u>	<u>\$ 2,951,686</u>

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

City of Bonney Lake
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005
(amounts expressed in dollars)

	<u>Water and Sewer</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	<u>Governmental Activities - Internal Service Funds</u>
Operating revenues:				
Charges for sales and services:				
Water sales	\$ 3,494,934	\$	\$ 3,494,934	\$
Sewer sales	2,363,639		2,363,639	
Water sales pledged as security for revenue bonds	622,870		622,870	
Sewer charges pledged as security for revenue bonds	113,195		113,195	
Other sales and services	355,735	355,735	355,735	
Total operating revenues	<u>6,594,638</u>	<u>355,735</u>	<u>6,950,373</u>	<u>0</u>
Operating expenses:				
Cost of sales and services	2,759,841	221,550	2,981,391	308,068
Administration	663,024	64,462	727,486	40,684
Insurance premium			0	245,227
External and interfund taxes	746,880	29,628	776,508	
Depreciation expense	1,984,061	40,751	2,024,812	
Total operating expenses	<u>6,153,806</u>	<u>356,391</u>	<u>6,510,197</u>	<u>593,979</u>
Operating income (Loss)	<u>440,832</u>	<u>-656</u>	<u>440,176</u>	<u>-593,979</u>
Nonoperating revenues (expenses):				
Other income	10,041	154	10,195	7,813
Investment earnings	597,923	7,905	605,828	37,936
Interest expense and other debt service costs	-613,807		-613,807	
Amortization of bond discount	-1,020		-1,020	
Gain on sale of capital assets			0	
Total nonoperating revenue (expenses)	<u>-6,863</u>	<u>8,059</u>	<u>1,196</u>	<u>45,749</u>
Income before contributions and transfers	<u>433,969</u>	<u>7,403</u>	<u>441,372</u>	<u>-548,230</u>
Capital contributions				
System development fees -water	4,289,476		4,289,476	
System development fees -sewer	1,938,300		1,938,300	
Developer capital contributions - water	358,889		358,889	
Developer capital contributions - sewer	764,789		764,789	
Developer capital contributions - stormwater		454,737	454,737	
Rolling stock contributed by other funds				1,773,852
Transfers from other funds				840,776
Transfers to other funds	-1,844,699	-141,010	-1,985,709	
Change in net assets	<u>5,940,724</u>	<u>321,130</u>	<u>6,261,854</u>	<u>2,034,405</u>
Total net assets - beginning	<u>50,735,688</u>	<u>1,313,656</u>	<u>52,049,344</u>	<u>917,281</u>
Total net assets - ending	<u>\$ 56,676,412</u>	<u>\$ 1,634,786</u>	<u>\$ 58,311,198</u>	<u>\$ 2,951,686</u>

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

City of Bonney Lake
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005
(amounts expressed in dollars)

	Business-type Activities - Enterprise Funds				Total	Governmental Activities - Internal Service Funds
	Water and Sewer	Nonmajor Enterprise Funds	Total			
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	6,418,036	342,827	6,760,863	\$	6,760,863	\$
Payments for external and interfund taxes	-746,580	-29,629	-776,509		-776,509	
Payments to suppliers	-1,724,985	-78,878	-1,803,863		-1,803,863	-485,391
Payments to employees	-1,596,311	-205,093	-1,801,404		-1,801,404	-122,463
Net cash provided by operating activities	2,349,860	29,227	2,379,087		2,379,087	-567,854
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Other non-operating revenues	10,041	154	10,195		10,195	840,776
Transfers to other funds	-1,008,484	-78,011	-1,086,495		-1,086,495	-31,993
Net cash provided by noncapital and related financing activities	-998,443	-77,857	-1,076,300		-1,076,300	808,783
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Receipt of public works trust fund loans	5,946,565		5,946,565		5,946,565	
Contract acquired for water rights purchase	5,776,598		5,776,598		5,776,598	
Proceeds from system development charges (tap fees)	6,227,776		6,227,776		6,227,776	
Expensing amount incorrectly coded to CIP	2,600		2,600		2,600	
Purchases or construction of capital assets	-9,195,236		-9,195,236		-9,195,236	
Purchase of water rights - intangible	-5,159,032		-5,159,032		-5,159,032	
Purchase of sewer capacity - intangible	-2,447,983		-2,447,983		-2,447,983	
Payment to other fund for purchase of capital asset to expand fleet	-836,215	-63,000	-899,215		-899,215	
Principal paid on capital debt	-2,091,806		-2,091,806		-2,091,806	
Insurance recoveries						7,813
Interest paid on capital debt	-444,572		-444,572		-444,572	
Net cash provided by capital and related financing activities	-2,221,285	-63,000	-2,284,285		-2,284,285	7,813
CASH FLOWS FROM INVESTING ACTIVITIES						
Sale of investment	2,000		2,000		2,000	
Interest and dividends received	573,647	7,640	581,287		581,287	36,636
Interfund loan made to Parks Impact Fees Fund	-1,965,376		-1,965,376		-1,965,376	
Net cash from investing activities	-1,391,729	9,640	-1,382,089		-1,382,089	36,636
Net increase in cash and cash equivalents	-2,261,597	-101,990	-2,363,587		-2,363,587	285,378
Cash and cash equivalents - January 1	23,663,456	335,329	24,218,785		24,218,785	922,262
Cash and cash equivalents - December 31	21,621,959	233,339	21,855,198	\$	21,855,198	\$ 1,187,640
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	440,832	-656	440,176		440,176	-593,979
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	1,984,061		1,984,061		1,984,061	
Amortization expense	1,020		1,020		1,020	
Decrease (Increase) in accounts receivable	-1,165	40,751	-1,174		-1,174	
(Increase) in due from other governments	-58,735	-12,908	-71,643		-71,643	
(Increase) in interest receivable	-24,276		-24,276		-24,276	
(Increase) in inventory	-30,626		-30,626		-30,626	
Increase (decrease) in accounts payable	107,960		107,960		107,960	5,118
Increase (decrease) in deposits payable	-329,305	2,040	-327,265		-327,265	
Increase (Decrease) in compensated absences	-21,306		-21,306		-21,306	1,007
(Decrease) in accrued interest payable	169,236		169,236		169,236	
Increase in current portion of principal payable	1,909,028		1,909,028		1,909,028	
Total adjustments	2,349,860	29,883	2,379,087	\$	2,379,087	\$ 6,125
Net cash provided by operating activities	2,349,860	29,227	2,379,087	\$	2,379,087	\$ -567,854
Noncash investing, capital, and financing activities:						
Capital assets donated by developers	358,689		358,689		358,689	
Water distribution improvements	764,789		764,789		764,789	
Sewer collection improvements	454,737		454,737		454,737	
Stormwater collection improvements						
Rolling stock contributed by other funds	1,773,852		1,773,852		1,773,852	

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

City of Bonney Lake
Statement of Fiduciary Net Assets
Agency Funds
December 31, 2005
(amounts expressed in dollars)

	<u>Agency Total</u>
ASSETS	
Cash and cash equivalents	\$ 948,809
Accounts receivable	343,377
Total assets	<u>1,292,186</u>
LIABILITIES	
Accounts payable	11,613
Fiduciary payable	<u>1,280,573</u>
Total liabilities	<u>1,292,186</u>
NET ASSETS	<u>\$ 0</u>

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

CITY OF BONNEY LAKE
Notes to the Financial Statements
December 31, 2005

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-term. The Council is responsible for assuring citizen representation through policy direction and adoption of local codes and legislation.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the 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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the 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 if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is 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 Parks Impact Fund uses funds collected to provide urban park development and infrastructure.
- The Municipal Capital Improvement Fund is used for capital purposes such as public buildings, facilities and parks.

The City reports the following major proprietary fund:

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

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

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

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

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

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.

Agency Funds account for retainage that the City holds for City contractors on the City's own projects and funds on deposit by private developers for improvements when the infrastructure will be donated to the City at a later date.

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

1. Scope of Budget

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

The appropriated budget is prepared by fund, and by department. The government's department heads may make transfers of appropriations within a department, but transfers of appropriations between departments require the Mayor's approval. The legal level of budgetary control (for example, the level at which expenditures may not legally exceed appropriations) is the fund level.

At December 31, 2005, the following fund reported deficits in the fund balance, which is violation of state statute:

Fund	Deficit
Park Impact Fund	\$3,126,090

The City has pledged future revenue from Park Impact fees over the next 10 years, or until paid which ever is sooner, to eliminate the deficit in this fund.

During 2005, the following supplemental budgetary ordinances were made: 1103, 1128, 1144, 1156, 1158, and 1168

In addition, both Ordinance 1044 (original budget) and Ordinance 1168 (final amended budget) include total revenues/sources (including beginning fund balances) under "Revenues", and expenditures/uses (including ending fund balances) under "Expenditures."

CHART FOR SUPPLEMENTAL BUDGETS

	Ordinance # 1044		Ordinance #1168	
	Revenues	Expenditures	Revenues	Expenditures
General Fund	11,680,474	11,680,474	15,755,432	15,755,432
Streets	1,707,844	1,707,844	1,826,354	1,826,354
Drug Investigation	109,476	109,476	417,828	417,828
Cumulative Reserve	521,337	521,337	521,337	521,337
Contingency	48,422	48,422	48,422	48,422
Eden Upgrade	75,841	75,841	75,841	75,841
Traffic Mitigation	284,937	284,937	284,937	284,937
Parks Impact Fees	540,000	540,000	4,135,833	4,135,833
Transportation Impact Fees	1,264,190	1,264,190	1,439,190	1,439,190
1997 GO Refunded Bond	453,412	453,412	453,412	453,412
LID #11	91,657	91,657	91,657	91,657
LID #12	63,207	63,207	63,207	63,207
LID Guaranty	110,148	110,148	110,148	110,148
Municipal CIP	12,671,479	12,671,479	12,671,479	12,671,479
Public Safety Construction	52,925	52,925	52,925	52,925
PS Maintenance and CIP	101,738	101,738	101,738	101,738
Water	21,370,360	21,370,360	21,370,360	21,370,360
Sewer	16,648,544	16,648,544	16,648,544	16,648,544
Storm Water	787,083	787,083	787,083	787,083
Equipment Rental & Replacement	1,164,982	1,164,982	1,164,982	1,164,982
Insurance	524,217	524,217	524,217	524,217
Total All Funds	<u>70,272,273</u>	<u>70,272,273</u>	<u>78,544,926</u>	<u>78,544,926</u>

E. Assets, Liabilities and Equities

1. Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. At December 31, 2005, the treasurer was holding \$33,342,062 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during 2005 were approximately \$1,171,286.

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

2. Receivables

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

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2005, no delinquent special assessments receivable were delinquent.

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

3. Inventories

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

4. Restricted Assets and Liabilities

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

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

Cash and Investments - Deposits	\$408,728
---------------------------------	-----------

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

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed, including governmental infrastructure constructed or acquired during the current year. Under the requirements of GASB 34, the City has until 2008 to record the remainder of its infrastructure assets. Interest incurred during the construction phase of the capital assets of business-type activities is not included as part of the capitalized value of the assets constructed.

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

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

6. 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, proprietary, and fiduciary fund financial statements.

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

In accordance with the provisions of GASB No. 16, Accounting for “Compensated Absences,” no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as “terminal leave” prior to retirement. A maximum of 30 days is payable upon resignation, retirement, or death. 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.

7. Deposits Payable - Restricted

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

8. Fund Equity

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

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

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

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

City of Bonney Lake
Explanation of Certain Differences Between Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets
December 31, 2005
(amounts expressed in dollars)

	Primary Government			
	Governmental Funds	Internal Service Funds	Adjustments	Total
ASSETS				
Cash & cash equivalents	\$ 9,605,961	\$ 1,187,640		\$ 10,793,601
Receivables (net of allowance for uncollectibles)	1,197,515	1,300		1,198,815
Interfund loan receivable - current	163,045		(163,045)	-
Inventories				-
Restricted assets:				-
Temporarily restricted:				-
Cash and cash equivalents	17,865			17,865
Non-current assets:				-
Special assessment receivable			5,441	5,441
Interfund loan receivable	1,467,412		(1,467,412)	-
Capital assets not being depreciated:				-
Land			8,396,946	8,396,946
Construction in progress			-	-
Capital assets net of accumulated depreciation:				-
Buildings and system			2,153,716	2,153,716
Improvements other than buildings			362,037	362,037
Machinery and equipment		1,773,852	755,923	2,529,775
Infrastructure			2,442,555	2,442,555
Intangible assets				-
Total assets	<u>12,451,798</u>	<u>2,962,792</u>	<u>12,486,161</u>	<u>27,900,751</u>
LIABILITIES				
Accounts payable and other current liabilities	471,484	9,881		481,365
Accrued interest payable			7,714	7,714
Due within one year				-
Interfund loan payable	359,583		(163,045)	196,538
Bonds, public works trust fund loans, and compensated absences payable			275,400	275,400
Noncurrent liabilities:				-
Special assessment receivable			5,441	5,441
Interfund loan payable	3,236,250		(1,467,412)	1,768,838
Bonds, public works trust fund loans, and compensated absences payable		1,225	1,863,057	1,864,282
Total liabilities	<u>4,067,317</u>	<u>11,106</u>	<u>521,155</u>	<u>4,599,578</u>
NET ASSETS				
Invested in capital assets, net of related debt		1,773,852	12,315,377	14,089,229
Restricted	945,777	880,491		1,826,268
Unrestricted	7,438,704	297,343	(350,371)	7,385,676
Total net assets	<u>\$ 8,384,481</u>	<u>\$ 2,951,686</u>	<u>11,965,006</u>	<u>\$ 23,301,173</u>

City of Bonney Lake
Explanation of Certain Differences Between Governmental Funds Balance Sheet
and the Government-Wide Statement of Net Assets

Receivables:		
Fund Balance		5,441 C
Special Assmt Receivable - 1 year		5,441 D
To record receivables for the coming years.		
Accrued interest		
Expense/FB		7,714 D
Accrued interest		7,714 C
To accrue interest on Public Safety Building GO Bonds		
6 month interest = 46,282. 1/6 = 7714		
For 1998 GO Bond		
Fund balance		
GO Bonds due in one year		270,000 C
GO Bonds dues in more than one year		1,545,000 C
Invested in capital assets, net of related debt		1,815,000 D
To record the Public Safety Building GO Bonds		
Capital assets not being depreciated:		
Land		8,396,946 D
Construction in progress		-
Capital assets net of accumulated depreciation:		
Buildings and system		2,153,716 D
Improvements other than buildings		362,037 D
Machinery and equipment		755,923 D
Infrastructure		2,442,555 D
Invested in capital assets, net of related debt		14,111,177 C
To record the general fixed assets net of accumulated depreciation.		
Compensated absences payable		312,657 C
Fund Balance		312,657 D
To record compensated absences payable at year-end.		

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).

City of Bonney Lake

**Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities
For the Year Ended December 31, 2005**

(amounts expressed in dollars)

<u>Functions/Programs</u>	<u>Per Page 26</u>	<u>Adm Data & Facility Elimination</u>	<u>Add transfers to ER& R and Insurance</u>	<u>Subtotal</u>
Primary government:				
Governmental activities:				
General government	2,255,079	-669,739	158,417	1,743,757
Public safety	3,064,942		452,943	3,517,885
Utilities and environment	185,435	-24,619	4,139	164,955
Highways and streets	453,568		221,338	674,906
Economic development	1,259,247	-78,733	20,010	1,200,524
Culture and recreation	397,023			397,023
Physical and mental health	3,122			3,122
Total governmental activities	<u>7,618,416</u>	<u>-773,091</u>	<u>856,847</u>	<u>7,702,172</u>
Business-type activities:	Per Page 31			
Water and sewer	6,153,806	757,473	1,087,226	
Other enterprise funds	<u>356,391</u>	<u>15,618</u>	<u>44,583</u>	
Total business-type activities	<u>6,510,197</u>	<u>773,091</u>	<u>1,131,809</u>	
Total primary government	<u>14,128,613</u>		<u>1,988,656</u>	

City of Bonney Lake

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

For the Year Ended December 31, 2005

(amounts expressed in dollars)

<u>Functions/Programs</u>	<u>Subtotal</u>	<u>I/S per page 31</u>	<u>ER&R & Ins Elimination</u>	<u>Expenses</u>
Primary government:				
Governmental activities:				
General government	1,743,757	593,979	-593,979	\$ 1,743,757
Public safety	3,517,885			3,517,885
Utilites and environment	164,955	31,994	-31,994	164,955
Highways and streets	674,906			674,906
Economic development	1,200,524			1,200,524
Culture and recreation	397,023			397,023
Physical and mental health	3,122			3,122
Total governmental activities	<u>7,702,172</u>	<u>625,973</u>	<u>-625,973</u>	<u>7,702,172</u>
Business-type activities:				
Water and sewer				7,998,505
Other enterprise funds				<u>416,592</u>
Total business-type activities				8,415,097
Total primary government				<u>\$ 16,117,269</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Except for the deficits in the fund balance reported under 1.D. above, there have been no material violations of finance-related legal or contractual provisions.

NOTE 4 - DEPOSITS AND INVESTMENTS

DEPOSITS

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

As of December 31, 2005, the City had the following investment:

Investment Type	Fair Value	Weighted Average Maturity Days)
State Treasurer's Local Government Investment Pool	\$28,372,856	34 days
Federal Home Loan Bank	1,988,017	Matures 7/6/2006
Federal Home Loan Bank	2,001,875	Matures 2/15/2007
Federal Home Loan Mtg Corp	979,314	Matures 7/27/2007

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

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

Other credit risk exposure. Standard and Poors rated Federal Home Loan Mortgage Corporation (FHLMC) and Federal Home Loan Bank (FHLBN) were rated AAA at year end.

Custodial credit risk. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. During 2005, 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.

NOTE 5 - PROPERTY TAXES

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

Property Tax Calendar	
January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100%
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. This amount does not include voter approved special levy for payment of debt on the Public Safety Building. Because the city belongs to the local fire district and library district, according to law the local fire district's levy and the library district's levy must be subtracted from the City's levy. Since these districts are currently levying their maximum amounts, the local levy can be no higher than \$1.60 per \$1,000. (\$3.60 less \$1.50 for the fire district less \$.50 for the library district = \$1.60.)

Special levies approved by the voters are not subject to the limitations listed above. In 2005, the City levied an additional \$.3056 per \$1,000 for debt service on the Public Safety Building for a total additional levy of \$354,687.

Washington State Constitution and Washington State law RCW 84.55.010 limits the rate.

For 2005, the city levied the following property taxes on an assessed value of \$2.322 billion. The special levy identified in the table below was approved by the voters and is not subject to the limitations listed above.

Purpose of Levy	Levy Rate per \$1,000	Total Levy Amount
General Government	1.5400	\$1,788,951
Debt service for Public Safety Building	.3056	354,687
Total	1.8456	\$2,143,638

NOTE 6 – CAPITAL ASSETS

A. Capital Assets

Capital assets activity for the year ended December 31, 2005 was as follows:

	Beginning Balance 01/01/05	Increases	Decreases	Ending Balance 12/31/05
Governmental Activities				
Capital assets, not being depreciated:				
Land	3,333,148	5,063,798		8,396,946
Total capital assets, not being depreciated	3,333,148	5,063,798		8,396,946
Capital assets, being depreciated:				
Buildings	4,307,432			4,307,432
Improvements other than buildings	693,161			693,161
Machinery and equipment	2,085,516	93,194	627,088	1,551,622
Rolling stock	0	2,892,022		2,892,022
Infrastructure	1,711,061	887,776		2,598,837
Total capital assets being depreciated	8,797,170	3,872,992	627,088	12,043,074
Less accumulated depreciation for:				
Buildings	2,046,030		107,686	2,153,716
Improvements other than buildings	301,525		29,599	331,124
Machinery and equipment	506,584		289,115	795,699
Rolling stock	0		1,118,170	1,118,170
Infrastructure	120,122		36,160	156,282
Total accumulated depreciation	2,974,261		1,580,730	4,554,991
Total capital assets, being depreciated, net	5,822,909	3,872,992	2,207,818	7,488,083
Governmental activities capital assets, net	9,156,057	8,936,790	2,207,818	15,885,029

	Beginning Balance 01/01/05	Increases	Decreases	Ending Balance 12/31/05
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	490,813	0	0	490,813
Construction in progress	4,136,161	8,504,749	139,138	12,501,772
Total capital assets, not being depreciated	4,626,974	8,504,749	139,138	12,992,585
Capital assets, being depreciated:				
Buildings	291,746	4,871		296,617
Improvements other than buildings	48,228,809	1,923,363	4,370,038	45,782,134
Machinery and equipment	3,049,891	350,909	2,567,897	832,903
Intangible assets	8,697,235	11,759,142	0	20,456,377
Total capital assets being depreciated	60,267,681	14,038,285	6,937,935	67,368,031
Less accumulated depreciation for:				
Buildings	118,870	0	8,694	127,564
Improvements other than Buildings	14,621,101	1,750,679	1,310,103	14,180,525
Machinery and equipment	1,882,301	1,819,704	502,104	564,701
Intangible assets	434,861	6,507	2,547,043	2,975,397
Total accumulated depreciation	17,057,133	3,576,890	4,367,944	17,848,187
Total capital assets, being depreciated, net	43,210,548	17,615,175	11,305,879	49,519,844
Business-type activities capital assets, net	47,837,522	26,119,924	11,445,017	62,512,429

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

General Government		
General Government		\$1,164,770
Public safety		37,948
Transportation		91,018
Culture and recreation		286,994
Total Depreciation – Governmental Activities		\$1,580,730
Business-Type Activities:		
Water/Sewer		\$1,984,061
Stormwater		40,751
Total Depreciation – Business Activities		\$2,024,812

The city has active construction projects as of December 31, 2005. The projects include improvements to its existing water distribution system, construction of intertie with City of Tacoma's water distribution system to carry water purchased during peak flows, and replacing the main sewer line from the City to the Wastewater Treatment Plant in the City of Sumner. During 2004, the City received authorization for \$10,000,000 in additional Public Works Trust Fund loans of which it has received draws of \$7,242,000 through December 31, 2005. The City has commitments to spend these funds as well for improvements to water and sewer systems under existing contracts. At year end the city's commitments are as follows:

Capital Projects	Spent-to-Date	Remaining Commitment
Water Projects		
Telemetry/SCADA Continued Upgrade	\$96,099	\$20,000
Pressure Relief Station Construction	0	104,000
Ballpark Well Treatment Facility/Mains	3,597,466	1,623,000
Replacement of oldest and key water mains	1,672,251	4,351,000
Peaking Storage Reservoir (At-Grade Storage Tank)	1,809,895	7,247,000
Public Works Facility (partial)	4,871	2,038,000
Tacoma Water District Intertie, BPS, and water main	3,467,748	2,700,000
Lakeridge 748 Zone Tank Cleaning & Recoating	0	260,000
Eastown Waterline	0	850,000
192 nd Corridor Waterline	0	495,000
Lakeridge 810 Zone Water Tank	0	4,400,000
Replacement of key water mains – phase 2	0	5,775,000
Disinfection/Corridor Control	1,482,214	500,000
Tacoma Point Water Tank Replacement design	0	380,000
Main Replacement at 182th Ave. E & 84 th St E	0	300,000
Security System Update	0	635,000
Lakeridge 810 Zone BP	0	1,270,000
Total	\$12,130,544	\$32,948,000
Sewer Project		
Purchase of Sewer Capacity (Upgrade Sumner WWTP)	\$0	\$1,500,000
Public Works Facility (partial)	1,522	500,000
Sewer Truck Line replacement (Meyers WWTP)	0	7,960,000
192 nd Corridor Sewer	0	550,000
Life Station 17 Improvements	0	105,000
Church Lake Drive Sewer	0	1,320,000
SR 410 Sewer Main Improvements	0	1,420,000
Total	\$1,522	\$13,355,000
Street Projects		
South Prairie Road E	\$603,000	\$4,832,000
Old Buckley Highway & SR 410 with signal	244,000	3,550,000
192 nd Ave. E. connection	0	2,000,000
Total	\$847,000	\$10,382,000
Parks Capital Project		
Construction of Fennel Creek Trail	\$0	\$3,969,333
Total	\$0	\$3,969,333
TOTALS	\$12,979,066	\$60,694,333

The 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. The upgrade to the City of Sumner's wastewater treatment plant is being funded by a Public Works Trust Fund Loan, which is secured by sewer revenues. The Street CIP was awarded a \$1 million dollar Public Works Trust Fund Loan in 2006. For Street Projects and Park Projects the main source of revenue is Real Estate Excise Tax fees, impact fees, and its own revenue.

NOTE 7 - PENSION PLANS

All City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

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

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

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

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

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

There are 1,181 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

Retirees and Beneficiaries Receiving Benefits	68,609
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	22,567
Active Plan Members Vested	104,574
Active Plan Members Nonvested	51,004
Total	246,754

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2005, were as follows:

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

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

** Plan 3 defined benefit portion only.

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

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3
2005	\$7,946	\$53,769	\$4,307
2004	\$ 4,551	\$ 35,029	\$ 2,486
2003	\$ 4,230	\$ 32,083	

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

Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF is comprised primarily of non-state employees, with the exception of the Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan. Effective January 1, 2003 firefighter emergency medical technicians (EMTs) may transfer PERS Plan 1 or Plan 2 service credit to LEOFF Plan 2 if while employed for the City, town, county or district, the

EMT’s job was relocated to a fire department from another City, town, county or district. LEOFF defined benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary is as follows:

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

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

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

There are 368 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

Retirees and Beneficiaries Receiving Benefits	8,723
Terminated Plan Members Entitled To But Not Yet Receiving	577
Active Plan Members Vested	12,348
Active Plan Members Nonvested	3,543
Total	25,191

Funding Policy

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with Chapter 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state

General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2005, were as follows:

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

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

	LEOFF Plan 1	LEOFF Plan 2
2005	\$0	\$ 55,349
2004	\$0	\$ 46,394
2003	\$ 4,923	\$ 45,052

NOTE 8 - RISK MANAGEMENT

The City of Bonney Lake is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 115 Members. WCIA annual financial report may be obtained by writing to: Washington Cities Insurance Authority, P.O. Box 88030, Tukwila, WA 98138.

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

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

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance.

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

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. Settlements have not exceeded coverage for each of the past three fiscal years.

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.

NOTE 9 - LONG-TERM DEBT AND LEASES

A. Long-Term Debt

Bonded indebtedness has also been entered into (currently and in prior years) to advance refund several general obligation bonds. General obligation bonds have been issued for general government activities and are being repaid from the applicable resources. In 1997, the City refunded its 1992 General Obligation Bonds in the authorized amount of \$2,865,000. The 1992 General Obligation Bonds were originally issued to construct the Public Safety Building.

The general obligation refunding bonds currently outstanding are as follows:

Purpose	Interest	Amount
1997 Public Safety Facility	4.1 – 5.25%	\$1,815,000
Total		\$1,815,000

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

Year Ending December 31	Principal	Interest
2006	270,000	92,563
2007	285,000	79,197
2008	290,000	64,805
2009	305,000	50,305
2010	325,000	34,750
2011	340,000	17,850
Total	\$1,815,000	\$339,470

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

Purpose	Interest	Amount
PW-01-691-PWP-201	0%	\$10,800
Total		\$10,800

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

Year Ending December 31	Principal
2006	\$5,400
2007	5,400
Total	\$10,800

In 1998, the City refunded its 1988 revenue bonds issued to construct various projects for the water system in the authorized amount of \$1,335,000. In 1999, the City issued revenue bonds to finance the construction of various projects for the water distribution system in the authorized amount of \$6,035,000. The City’s 1999 Water/Sewer Revenue Bond paid for and is paying for capital improvements to either the water system or the sewer system consisting of (a) construction of a public works building, (b) various water mains. (c) and various valve, intertie and tank improvements. This bond is subject to arbitrage requirements. The revenue bonds are being repaid by proprietary fund revenues. The revenue refunding bonds and revenue bonds currently outstanding are as follows:

Purpose	Interest	Amount
1998 Revenue Refunding Bonds	4.1 – 5.2%	\$950,000
1999 Water/Sewer Revenue Bonds	4.0 – 5.75%	4,795,000
Total		\$5,745,000

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	1998 Principal	1998 Interest	1999 Principal	1999 Interest
2006	\$60,000	\$48,932	\$240,000	\$261,195
2007	65,000	46,082	255,000	249,555
2008	65,000	42,962	265,000	236,933
2009	70,000	39,810	280,000	223,683
2010	75,000	36,345	290,000	209,403
2011 to 2015	425,000	121,285	1,715,000	798,216
2016 to 2019	190,000	15,247	1,750,000	258,751
Total	\$950,000	\$350,663	\$4,795,000	\$2,237,736

The City received low interest note from the City of Tacoma’s Water Department payment of system development charges in order that the City may purchase water during peak capacity. The note currently outstanding is as follows:

Purpose	Interest	Amount
City of Tacoma - SDCs	Prime minus 2%	\$4,621,278
Total		\$4,621,278

The various proprietary note service requirements to maturity is as follows:

Year Ending December 31	Principal	Interest
2006	\$462,128	\$194,556
2007	462,128	175,100
2008	462,128	155,645
2009	462,128	136,189
2010	462,128	116,733
2011 to 2015	2,310,638	291,834
Total	\$4,621,278	\$1,070,057

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

Purpose	Interest	Amount
PW-5-87-962-030	1%	\$ 34,886
PW-5-96-791-004	3%	726,627
PW-97-791-017	1%	605,617
PW-98-791-006	1%	194,938
PW-98-78898-07	4.35%	209,642
PW-98-78898-08	4.35%	527,203
PW-00-691-008	1%	574,597
DOE Loan (#L9900035)	0%	4,715
PW-02-691-006	.5%	6,278,525
PW-03-691-006	.5%	1,146,878
PW-04-691-007	.5%	2,003,550
PW-04-691-008	.5%	3,206,250
PW-04-691-009	.5%	2,032,200
Total		\$17,545,628

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

Year Ending December 31	Principal	Interest
2006	\$1,058,818	\$140,137
2007	1,054,100	131,735
2008	1,036,656	122,180
2009	1,036,656	112,800
2010	1,036,656	103,420
2011 to 2015	5,183,281	376,404
2016 to 2020	4,685,027	155,462
2021 to 2024	2,454,434	26,509
Total	\$17,545,628	\$1,168,647

In proprietary funds, unamortized debt issue costs are recorded as deferred charges and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount. At December 31, 2005, the City has \$105,057 available in debt service funds to service the general bonded refunding debt. Restricted retained earnings in proprietary funds contain \$1,662,001 in sinking funds and reserves as required by bond indentures.

B. Changes in Long-Term Liabilities

During the year ended December 31, 2005, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/05	Additions	Reduction	Ending Balance 12/31/05	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation refunding bonds	\$2,065,000		\$250,000	\$1,815,000	\$270,000
Installment Contracts:					
PWTF Loan (PW-01-691-PWP-201)	16,200		5,400	10,800	5,400
Compensated absences	340,646		26,764	313,882	
Governmental activity long-term liabilities:	\$2,421,846		\$282,164	\$2,139,682	\$275,400
Business-Type Activities:					
Bonds payable:					
Refunding bonds	\$1,010,000	\$0	\$60,000	\$950,000	\$60,000
(Unamortized Discount on Ref Bond)	(17,186)	1,021		(16,165)	(1,021)
Revenue bonds	5,025,000		230,000	4,795,000	240,000
Public Works Trust Fund Loans	12,304,030	5,888,085	646,485	17,545,630	1,033,498
City of Tacoma note		5,776,598	1,155,320	4,621,278	369,325
Compensated absences	131,764		21,085	110,679	
Business-type activity long-term liabilities:	\$18,453,608	\$11,665,704	\$2,112,890	\$28,006,422	\$1,701,802

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$1,225 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund or street fund.

C. Segment information

The City has obtained 12 Public Works Trust Fund Loans. Ten (10) of the twelve (12) loans are payable out of water revenue or system development charges. The remaining two loans are payable out of sewer revenues or system development charges. In addition, the City has issued one revenue bond to finance its sewer department, which should be paid out of sewer revenue. Finally, the City has issued one revenue bond which may be paid for with either water or sewer revenue. Both the water and sewer are accounted for in a single fund. However, since revenue bonds rely solely on the revenue generated by the individual activities for repayment, the City has chosen to present segment information for those investors.

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

CONDENSED STATEMENT OF NET ASSETS		
	WATER	SEWER
Assets		
Current assets	\$14,733,966	\$7,717,666
Restricted assets	236,056	158,498
Interfund Loan Receivable – Long Term		1,768,838
Capital assets	33,841,405	27,293,397
Total assets	48,811,427	36,938,399
Liabilities		
Current liabilities	1,927,117	841,681
Non-current liabilities	16,742,277	9,562,339
Total liabilities	18,669,394	10,404,020
Net assets:		
Invested in capital assets, net of related debt	16,419,881	17,773,428
Restricted	12,281,275	9,243,541
Unrestricted	\$1,440,877	\$(482,590)
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET		
Charges for sales and service	\$4,117,804	\$2,476,834
Depreciation expense	714,366	1,269,695
Other operating expense	2,424,296	1,745,449
Operating income	979,142	(538,310)
Non-operating revenues (expenses)		
Investment earnings	312,161	285,762
Interest expense	(489,210)	(125,617)
Other income	9,064	977
Capital contributions	4,648,365	2,703,089
Transfers out	(1,106,990)	(737,709)
Change in net assets	4,352,532	1,588,192
Beginning net assets	25,789,501	24,946,187
Ending net assets	30,142,033	26,534,379
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used by):		
Operating activities	1,545,797	795,985
Noncapital financing	(505,442)	(493,001)
Capital and related financing activities	(3,703,562)	1,490,356
Investing activities	295,143	(1,686,872)
Net increase (decrease)	(2,368,064)	106,468
Beginning net assets	16,681,021	7,202,435
Ending net assets	14,312,957	7,308,903

NOTE 10 - CONTINGENCIES AND LITIGATIONS

As discussed in Note 1 D. (Budgetary Information), the Park Impact Fund reported deficits in the fund balance of \$3,126,090, which is violation of state statute. The City has pledged future revenue from Park Impact fees over the next 10 years, or until paid, which ever is sooner, to eliminate the deficit in this fund.

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

The City participates in a number of federal- and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Other than the instances described above, city management believes that such disallowances, if any, will be immaterial.

Finally, the City is committed to spending the remaining unspent proceeds (\$1.662 Million) of the 1999 Water and Sewer Revenue bond.

NOTE 11 INTERFUND BALANCES AND TRANSFERS

Interfund Balances

Interfund Balances at December 31, 2005 were as follows:

Due To	Due From			Total
		Parks Impact Fund	Government Wide Elimination	
General Fund	\$1,630,457	(\$1,630,457)	\$0	
Water/Sewer Fund	1,965,376		1,965,376	
Total	\$3,595,833	(\$1,630,457)	\$1,965,376	

Interfund Transfers

Interfund transfers during 2005 were as follows:

Transfer From	Transfer To			Total
		General Fund	All Other - Governmental Fund	
Parks Impact Fees Fund	\$3,584,857	\$0	\$3,584,857	
All Other - Governmental	444,885	419,000	863,885	
General Fund		105,777	105,777	
Municipal Capital Improvement Fund		175,000	175,000	
All Other - Proprietary		80,810	80,810	
Charges for services for other funds	780,899		780,899	
Total	\$4,810,641	\$780,587	\$5,591,228	
Less Government-Wide Elimination	(4,810,641)	(699,777)	(5,510,418)	
Total for Government Wide	0	80,810	80,810	

Transfers were used to 1) transfer for addition to Allan York Park, and 2) transfer to Street Fund as directed by Council towards payment to State Department of Transportation for SR 410 widening, for stop light located in front of new high school, for utilities to reimburse Streets for their portions of South Prairie Road, and operating transfers.

NOTE 12 – RECEIVABLE AND PAYABLE BALANCES

A. Receivables

Receivables at December 31, 2005 were as follows;

	Taxes	Accounts	Interest	Due from Other Governments	Total
General Fund	\$358,635	\$66,405	\$5,934	\$429,859	\$860,833
Parks Impact Fees Fund			528		528
Municipal Capital Improvement Fund	265,298		1,575		266,873
All Other funds	1,261	10,174	3,905	53,941	69,281
Equipment Rental			1,300		1,300
Total Governmental Activities	\$625,194	\$76,579	\$13,242	\$483,800	\$1,198,815
Amounts not scheduled for collection during the subsequent year					0
Water and Sewer Fund		\$870,956	\$24,276	\$58,735	\$953,967
All Other Funds		43,293	262		43,555
Total Business-Type Activities		\$914,249	\$24,538	\$58,735	\$997,522
Amounts not scheduled for collection during the subsequent year					0

B. Payables

Payables at December 31, 2005 were as follows;

	Accounts	Due to Other Governmental Units	Deposits payable - restricted	Deferred Revenue - Taxes	Total
General Fund	\$124,442	\$18,130	\$136,043	\$158,934	\$437,549
All Other Funds	26,381			7,554	33,935
Equipment Rental	9,881				9,881
Total Governmental Activities	\$160,704	\$18,130	\$136,043	\$166,488	\$481,365
Amounts not schedule for payment during the subsequent year					0
Water and Sewer Fund	\$686,546		\$75,150		\$761,696
All Other Fund	4,289		15,446		19,735
Total business-type activities	\$690,835		\$90,596		\$781,431
Amounts not schedule for payment during the subsequent year					0

NOTE 13 – LAW ENFORCEMENT EMPLOYEE OPEB PLAN

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