

City of Bonney Lake
Management's Discussion and Analysis (MD&A)
For the Year Ending December 31, 2012

As management of the City of Bonney Lake (the City), we offer this narrative overview and analysis of the City's financial activities for the fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and the notes to the financial statements.

Financial Highlights

- As of December 31, 2012 total assets of the City exceeded its liabilities by \$ 139 million. Of this amount, \$ 38 million was reported as unrestricted net position, amounts which are available for use to meet the City's ongoing obligations to citizens and creditors.
- The City's net position increased by \$ 2.3 million.
- Capital assets increased approximately \$ 1.2 million, largely due to the completion of a number of construction projects.
- The City's governmental funds reported combined ending fund balances of \$ 15.7 million.
- The General Fund reported an unassigned fund balance of \$ 2.4 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements for fiscal 2012, which have been prepared pursuant to Generally Accepted Accounting Principles (GAAP). The City's basic financial statements for fiscal 2011 were prepared on a cash basis due to staffing challenges experienced throughout that year. The City's basic financial statements are comprised of three components: 1) Government-wide financial statements; 2) Fund financial statements; and 3) Notes to the financial statements. This report also contains other required supplementary information (RSI) in addition to the basic financial statements

Government-wide financial statements

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

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

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

Both the Statement of Net Position 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, transportation and streets, economic development, and culture and health & human services are primarily supported by taxes and intergovernmental revenues. Business-type activities, primarily utilities, are intended to recover their costs through user fees and charges. The City's utilities include the water distribution system, the sewer collection and treatment system and the stormwater collection system.

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

Fund financial statements

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

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

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

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Street Construction Fund, Park Construction Fund and the General Government Construction Fund which are all considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. The City adopts a biennial appropriated budget for all of its funds.

Proprietary funds

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

business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, and Stormwater Funds. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information (RSI)* concerning the City’s financial results.

The City as a Whole

The table below summarizes the City’s Statement of Net Position for the year ending 2012.

CONDENSED STATEMENT OF NET POSITION			
	Governmental Activities	Business- type Activities	Total
	2012	2012	
ASSETS			
Current and other assets	22,166,988	22,476,177	44,643,165
Capital assets, net of accum dep	47,765,489	88,930,598	134,456,030
TOTAL ASSETS	69,932,477	111,406,775	179,099,195
LIABILITIES			
Long-term liabilities	9,329,489	24,168,015	14,767,499
Other liabilities	3,921,425	5,138,010	27,789,465
TOTAL LIABILITIES	13,250,914	29,306,025	42,556,964
NET POSITION			
Net Investment capital assets	38,042,161	6,160,407	99,646,168
Restricted	167,654	998,001	1,165,655
Unrestricted	18,471,748	19,498,742	37,970,490
TOTAL NET POSITION	56,681,563	82,100,750	138,782,313

The amounts in yellow don't agree to statement of net position, off by \$299,975.

As noted earlier, net position may serve, over time, as a useful indicator of a government's financial position. At year-end 2012 assets exceeded liabilities by \$139 million.

The most significant portion of 2012 net position (72%) 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 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.

The remaining balance of *unrestricted net position* may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the 2012 the City reports positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

The table below summarizes the City's Statement of Activities for fiscal 2012:

CONDENSED STATEMENT OF ACTIVITIES			
	<u>Governmental Activities</u>	<u>Business Activities</u>	<u>Total</u>
	2012	2012	
Revenues			
Program revenues:			
Charges for services	\$4,432,416	\$14,486,878	\$18,919,294
Operating grants and contributions	1,329,182	21,862	\$1,351,044
Capital grants and contributions	247,095	-	\$247,095
General revenues:			
Property taxes	2,589,335	-	\$2,589,335
Sales taxes	3,375,197	-	\$3,375,197
B&O taxes	1,730,224	-	\$1,730,224
Excise taxes	493,046	-	\$493,046
Utility	983,593	-	\$983,593
Other taxes	-	-	-
Investment earnings	61,200	39,111	\$100,311

Miscellaneous revenues	257,169	42,817	\$299,986
Total revenues	15,498,457	14,590,668	\$30,089,125
Expenses			
General government	4,266,110	-	\$4,266,110
Public safety	5,652,386	-	\$5,652,386
Physical environment	788,548	-	\$788,548
Transportation	1,800,619	-	\$1,800,619
Health and human services	359,039	-	\$359,039
Economic environment	1,352,458	-	\$1,352,458
Culture and recreation	387,682	-	\$387,682
Interest on long term debt	447,486	-	\$447,486
Water		6,044,804	\$6,044,804
Sewer		5,000,806	\$5,000,806
Stormwater		1,252,152	\$1,252,152
Total expenses	15,054,328	12,297,762	27,352,090
Change in net position before transfers	444,129	2,292,906	\$2,737,035
Transfers	0	0	\$-
			\$-
Change in net position	444,129	2,292,906	\$2,737,035
			\$-
Net position as of January 1	56,237,434	80,107,819	\$136,345,253
Net position as of December 31	\$56,681,563	\$82,400,725	\$139,082,288

As illustrated in the total column, the most significant justification for the increase in business type activities is reflected in the revenue line item titled “charges for service.” This category includes plan check and review fees as well as inspection fees, which are all associated with building and construction activities within our community and thus may be construed as an economic indicator that the slowdown in construction activity may be waning. Further monitoring and analysis are required to substantiate this conclusion, however. The total Change in Net Position is \$2,737,035

Fluctuations in the category “Operating Grants and Contributions” are normal as these revenues are derived mainly from the State of WA and other governmental entities in the form of grant funding. Economical and/or financial impacts within the city’s varying granting agencies tends to have a trickle-down effect to the City of Bonney Lake in the form of less grant opportunities available.

Significant Transactions and Changes in Individual Funds

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

Governmental funds

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

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

<u>GENERAL FUND</u>	General Fund 2012
Total revenues	12,858,726
Total expenditures	(12,943,447)
Total other financing sources and uses	87,095
Net changes in fund balance	<u>2,374</u>
Fund balances, beginning of year	2,428,868
Prior period adjustment	0
Fund balances, end of year	<u><u>2,431,242</u></u>

The General Fund is the main operating fund of the city and at the end of the fiscal 2012, unreserved undesignated fund balance of the General Fund was \$ 2.4 million. Fluctuations are due, in part, to the fact that our legislative body and Executive made a collaborative decision to draw down some of the City’s fund balance in order to meet new debt service payment requirements for the civic center and police

800 MHz radio system.

For the past several years the top five categories of revenue collected within the general fund have been Sales Tax, Property Tax, Building Permits, Utility Tax, and Fines and Forfeitures. Consequently, we commonly refer to this broad category of revenue as our “Big Five.” We fully expect this trend to continue well into the future.

Despite a healthy tax base our general fund and capital needs are great and resources are somewhat limited due in part to the national recession that most cities across the nation have experienced. We must continue to be creative and resourceful as we pursue a full range of available funding sources, including grants and other partnering opportunities and/or contingencies.

The city has committed to refine our six year financial model in order to forecast and identify challenges that may hamper our options in achieving our long range financial goals. In concert with our financial model, our management and executive teams have implemented a strategic resource/expenditure leveling effort in order to remain abreast of the “new normal” we are experiencing in our economic climate.

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

<u>CAPITAL IMPROVEMENT FUNDS</u>	Street CIP	Park CIP	General Gov CIP
	2012	2012	2012
Total revenues	1,724,252	466,592	169,901
Total expenditures	(1,509,217)	(215,183)	(878,370)
Total other financing sources and uses	160,000	0	0
Net changes in fund balance	375,035	251,409	(708,469)
Fund balances, beginning of year	5,691,341	1,510,605	6,075,677
Prior period adjustment	0	0	0
Fund balances, end of year	6,066,376	1,762,014	5,367,208

As is the case in any Capital Improvement Fund, activity from year to year is based upon an entity’s capacity to sustain funding for future projects. Dedicated revenue sources in this particular fund flow into the City, in great part, as a result of Real Estate Excise Taxes. Although robust in past years this source appears to be headed towards a significant slowing and eventual downturn in years hence.

The category “other financing sources and uses” illustrated in the spreadsheet above reflects an aggregate summary of both uses and sources. Significant other sources result in the form of grants,

bond proceeds, etc. that may have been received from other governmental agencies in support of our Street Construction activities.

	WATER 2012	SEWER 2012	STORM 2012
Total revenues	8,222,950	4,684,021	1,683,697
Total expenses	(6,044,804)	(5,000,806)	(1,252,152)
Net changes in net position	2,178,146	(316,785)	431,545
Net position, beginning of year	44,178,913	29,309,757	6,619,149
Net position, end of year	46,357,059	28,992,972	7,050,694

The City of Bonney Lake’s proprietary funds provide the same type of information found in the government-wide, but in more detail. Factors concerning the finances of the three funds have been addressed in the presentation of the City of Bonney Lake’s business-type activities.

General Fund Budgetary Highlights

The City follows very conservative management practices that continue to guide our budgetary outlook. Revenue and expenditure activity is monitored frequently throughout the year in order to anticipate and respond to near and long term economic conditions.

The City adopted an original 2011 – 2012 biennial budget containing revenues and transfers in of \$ 71.8 million. The biennial document also included budget for expenditures and transfers out of \$ 91.4 million. Pursuant to RCW, the city reviews revenues and expenditures at the conclusion of the first year of the biennium and adjusts the biennial budget as necessary. This mid-biennial review is mainly to take a realistic budgetary look at projects underway and/or projects that may have experienced delays, for whatever reason. The City’s final budget for revenues and transfers in was \$ 72.7 million; and, the City’s final budget for expenditures and transfers out was \$ 83.3 million. The ordinance adopting the original biennial budget contains a spreadsheet appendix that illustrates, by fund, appropriated total expenditures, revenues and any other financing uses and/or sources.

Capital Assets

The following table summarizes the City's capital asset balances at December 31, 2012:

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	16,204,716	16,024,459	1,675,671	1,675,671	17,880,387	17,700,130
Construction in progress	5,781,742	4,823,646	4,881,086	2,478,831	10,662,828	7,302,477
Buildings	7,079,316	7,547,840	4,645,090	4,673,496	11,724,406	12,221,336
Improvements other than buildings	6,037,078	6,119,100	46,723,833	47,113,813	52,760,911	53,232,913
Infrastructure	9,683,904	9,744,442	0	0	9,683,904	9,744,442
Machinery and equipment	553,147	616,417	53,906	91,513	607,053	707,930
Rolling stock	2,425,588	2,447,672	0	0	2,425,588	2,447,672
Leasehold Improvements	0	0	14,809,275	15,294,825	14,809,275	15,294,825
Intangible Assets	0	0	14,047,945	15,182,565	14,047,945	15,182,565
Total	47,765,491	47,323,576	86,836,806	86,510,714	134,602,297	133,834,290

2011 Governmental activities total of 47,323,576 above is \$130 off from the \$47,323,446 shown on the 2011 total for Note 5-Capital Assets, difference is in the Infrastructure balance above.

Changes occurred in several asset categories as a result of normal operating activity; and, appropriately valuing and recording infrastructure assets. The City has many construction projects underway and, accordingly, the above table reflects this activity.

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

Debt Administration

The City's debt liabilities in both governmental and business-type activities decreased during the fiscal year due to regularly scheduled debt service payments.

Additional information on the City's long-term debt can be found in Notes 6.

Economic Factors and Other Information

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

Regional

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

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

Local

The economy continues to dominate local official's current outlook as changing conditions influence the city's overall fiscal picture. As an example: when consumer confidence is moderate to high, people tend to expend more on goods and services; and, as a result city governments reap the benefit through increased sales tax collections. The struggling economy, however, and the declining real estate market have reduced consumer confidence resulting in less consumer spending ultimately leading to declining sales tax revenues.

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

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

As part of our overall review of fiscal policies, management and executive teams have committed to nurture economic growth in order to sustain the current health of the community as well as strategically positioning ourselves into the future. In order to accomplish this initiative city leaders have developed a strategic plan that looks back upon the past decade where fund balances have grown due to robust economic conditions. These decades of historically high fund balances have provided a "cushion" in anticipation of unpredictable events such as natural disasters and economic downturns. In much the same fashion as a personal savings account, fund balances have been built up deliberately to set aside funds for planned events such as future capital projects.

The City continues to pursue grant opportunities to enhance our infrastructure, major programs and capital improvement plans. Key programs or projects either completed or underway during 2012 include:

Water Fund

- TWD Booster Pump Station
- Leaky Mains – Phase 2e
- Variable Frequency Drives
- Water Main Replacement – 184th & Locust

Sewer Fund

- WWTP Expansion & Perimeter Wall Upgrade
- Sewer Trunk Line Improvement – PHF 18’
- Lift Station 17 Improvements
- Septic System Reduction Program

Storm Water Fund

- Drainage project – Angeline Rd at 95th to 104th
- NPDES Project

Requests for Information

This financial report is designed to provide a general overview of the City’s finances for all those with an interest in the government's financial accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Department; City of Bonney Lake, 9002 Main Street East, P.O. Box 7380, Bonney Lake, WA 98391-0944. Personal inquiries may be directed to Tony Cullerton, Senior Accountant, at (253) 447-4316, culletont@ci.bonney-lake.wa.us and/or Al Juarez, Chief Financial Officer, at (253) 447-4314, juareza@ci.bonney-lake.wa.us.

City of Bonney Lake
Statement of Net Position
December 31, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 19,393,677	\$ 22,150,617	\$ 41,544,294
Investments	-	-	-
Receivables	2,292,587	187,591	2,480,178
Due from other governments	1,566,449	-	1,566,449
Inventories	-	404,022	404,022
Internal Balances	(1,089,653)	1,089,653	-
Prepaid items	1,603	496	2,099
Restricted assets:			
Cash and cash equivalents	-	136,868	136,868
Deposits	2,325	605	2,930
Capital Assets:			
Non-depreciable	21,986,458	7,156,914	29,143,372
Depreciable (net)	25,779,031	80,280,009	106,059,040
Total assets	69,932,477	111,406,775	181,339,252
LIABILITIES			
Accounts payable	1,067,311	1,112,132	2,179,443
Due to other governments	12,303	196,655	208,958
Deposits	684,474	224,924	909,398
Accrued interest payable	-	484,867	484,867
Other liabilities	1,425,363	156,555	1,581,918
Deferred revenue	264,704	-	264,704
Long term debts			
Due within one year	467,270	2,962,877	3,430,147
Due in more than one year	9,329,489	23,868,040	33,197,529
Total liabilities	13,250,914	29,006,050	42,256,964
NET POSITION			
Net investment in capital assets	38,042,161	61,604,007	99,646,168
Restricted for Debt service	167,654	998,001	1,165,655
Unrestricted	18,471,748	19,798,717	38,270,465
Total Net Position	\$ 56,681,563	82,400,725	\$ 139,082,288

The notes are an integral part of the financial statements.

City of Bonney Lake
Statement of Activities
For the Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$ 4,266,110	\$ 2,595,611	\$ 809,244	\$ 87,095	\$ (774,160)	\$ -	\$ (774,160)
Public safety	5,652,386	591,820	-	-	(5,060,566)	-	(5,060,566)
Physical environment	788,548	-	-	-	(788,548)	-	(788,548)
Transportation	1,800,619	951,531	519,938	160,000	(169,150)	-	(169,150)
Health and human services	359,039	-	-	-	(359,039)	-	(359,039)
Economic environment	1,352,458	-	-	-	(1,352,458)	-	(1,352,458)
Culture and recreation	387,682	293,454	-	-	(94,228)	-	(94,228)
Interest on long term debt	447,486	-	-	-	(447,486)	-	(447,486)
Total governmental activities	15,054,328	4,432,416	1,329,182	247,095	(9,045,635)	-	(9,045,635)
Business-type Activities:							
Water	6,044,804	8,156,631	-	-	-	2,111,827	2,111,827
Sewer	5,000,806	4,670,824	-	-	-	(329,982)	(329,982)
Stormwater	1,252,152	1,659,423	21,862	-	-	429,133	429,133
Total business-type activities	12,297,762	14,486,878	21,862	-	-	2,210,978	2,210,978
Total government	\$ 27,352,090	\$ 18,919,294	\$ 1,351,044	\$ 247,095	\$ (9,045,635)	\$ 2,210,978	\$ (6,834,657)
General Revenues:							
Taxes:							
Property taxes					2,589,335	-	2,589,335
Sales taxes					3,375,197	-	3,375,197
B&O taxes					1,730,224	-	1,730,224
Excise taxes					493,046	-	493,046
Utility and other taxes					983,593	-	983,593
Investment earnings					61,200	39,111	100,311
Miscellaneous revenues					257,169	42,817	299,986
Total general revenues					9,489,764	81,928	9,571,692
Change in net position					444,129	2,292,906	2,737,035
Net position-beginning					56,237,434	80,107,819	136,345,253
Net position-ending					\$ 56,681,563	\$ 82,400,725	\$ 139,082,288

The notes are an integral part of the financial statements.

City of Bonney Lake
Balance Sheet
Governmental Funds
December 31, 2012

	GENERAL FUND	STREET CONSTRUCTION FUND	PARK CONSTRUCTION FUND	GENERAL GOVERNMENTAL CONSTRUCTION	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash and cash equivalents	\$ 2,644,464	\$ 5,014,601	\$ 2,832,839	\$ 5,459,133	\$ 83,777	\$ 16,034,814
Investments	-	-	-	-	-	-
Receivables	1,045,275	651,917	18,828	8,070	2,855	1,726,945
Due from other governments	697,790	868,659	-	-	-	1,566,449
Prepaid items	1,603	-	-	-	-	1,603
Restricted assets:						
Deposits	200	-	-	2,125	-	2,325
Total assets	4,389,332	6,535,177	2,851,667	5,469,328	86,632	19,332,136
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	490,382	387,941	-	99,468	36,827	1,014,618
Due to other governments	12,585	-	-	527	(809)	12,303
Deposits payable	683,024	(200)	-	1,400	250	684,474
Interfund loan payable	-	-	1,089,653	-	-	1,089,653
Deferred revenues	219,293	44,686	-	725	-	264,704
Other liabilities	552,806	36,374	-	-	-	589,180
Total liabilities	1,958,090	468,801	1,089,653	102,120	36,268	3,654,932
Fund balances:						
Non-spendable	-	-	-	-	-	-
Restricted	-	2,509,994	1,001,068	126,394	-	3,637,456
Committed	-	-	-	-	-	-
Assigned	-	3,556,382	760,946	5,240,814	60,806	9,618,948
Unassigned	2,431,242	-	-	-	(10,442)	2,420,800
Total fund balances	2,431,242	6,066,376	1,762,014	5,367,208	50,364	15,677,204
Total liabilities and fund balances	\$ 4,389,332	\$ 6,535,177	\$ 2,851,667	\$ 5,469,328	\$ 86,632	

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

Receivables for fines and forfeitures and the related allowance for uncollectible accounts are not current financial resources and, therefore not reported in the funds.	565,622
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	47,765,489
Long-term liabilities applicable to the City's activities are not due and payable in the current period and are not reported as fund liabilities:	(9,796,759)
Internal service funds are used by management to charge the costs of insurance and equipment rental and replacement services to individual funds. Total assets and liabilities of the internal service funds that are reported with governmental activities, net of amounts reported above.	3,303,058
Compensated absences payable are not due and payable in the current period, therefore are not reported in the funds.	(833,051)
Net position of governmental activities	56,681,563

The notes are an integral part of the financial statements.

City of Bonney Lake
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012

	GENERAL FUND	STREET CONSTRUCTION FUND	PARK CONSTRUCTION FUND	GENERAL GOVERNMENTAL CONSTRUCTION	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES						
Taxes						
Property	\$ 2,589,335	\$ -	\$ -	\$ -	\$ -	\$ 2,589,335
Sales	3,375,197	-	-	-	-	3,375,197
B&O	1,730,224	-	-	-	-	1,730,224
Excise	12,012	240,517	168,362	72,155	-	493,046
Special assessments	-	-	-	-	-	-
Other	983,593	-	-	-	-	983,593
Licenses and permits	753,004	-	-	-	-	753,004
Intergovernmental	809,244	519,938	-	-	-	1,329,182
Charges for goods and services	1,842,607	951,531	293,454	-	-	3,087,592
Fines and forfeitures	559,979	-	-	-	31,841	591,820
Miscellaneous:						
Interest	35,449	9,950	4,776	10,975	50	61,200
Other	168,082	2,316	-	86,771	-	257,169
Total revenues	12,858,726	1,724,252	466,592	169,901	31,891	15,251,362
EXPENDITURES						
Current:						
General government	3,826,121	-	-	39,673	-	3,865,794
Public safety	5,303,757	-	-	-	-	5,303,757
Utilities and environment	529,386	-	-	-	10,875	540,261
Transportation	1,096,271	-	-	-	-	1,096,271
Economic environment	1,349,774	-	-	-	-	1,349,774
Culture and recreation	303,290	-	-	-	-	303,290
Health and human services	338,987	-	-	-	-	338,987
Capital outlay	-	1,509,217	210,842	176,982	-	1,897,041
Debt service:						
Principal retirement	174,268	-	-	275,000	-	449,268
Interest	21,593	-	4,341	386,715	34,837	447,486
Total expenditures	12,943,447	1,509,217	215,183	878,370	45,712	15,591,929
Excess (deficiency) of revenues over expenditures	(84,721)	215,035	251,409	(708,469)	(13,821)	(340,567)
OTHER FINANCING SOURCES (USES)						
Contributions from property owners	87,095	160,000	-	-	-	247,095
Total other financing sources and uses	87,095	160,000	-	-	-	247,095
Net Change in fund balances	2,374	375,035	251,409	(708,469)	(13,821)	(93,472)
Fund balances-beginning	\$ 2,428,868	\$ 5,691,341	\$ 1,510,605	\$ 6,075,677	\$ 64,185	\$ 15,770,676
Fund balances-ending	\$ 2,431,242	\$ 6,066,376	\$ 1,762,014	\$ 5,367,208	\$ 50,364	\$ 15,677,204

The notes are an integral part of the financial statements.

City of Bonney Lake
Reconciliation of The Statement of Revenue, Expenditures,
And Changes In Fund Balances of Governmental Funds
To the Statement of Activities
For The Year Ended December 31, 2012

Net changes in fund balances - total governmental funds \$ (93,472)

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

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

Capital outlay	1,897,041	
Depreciation expense	<u>(1,808,708)</u>	88,333

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position.

This is the amount of the net effect of these differences in the treatment of long-term debt and related items.

Principal and other debt service costs retired	449,268
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Change in net position of governmental activities \$ 444,129

The notes are an integral part of the financial statements.

City of Bonney Lake
Statement of Net Position
Proprietary Funds
December 31, 2012

	Business-type Activities - Enterprise Funds			Total Proprietary Funds	Gov. Activities Internal Service Funds
	Water	Sewer	Stormwater		
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 14,219,468	\$ 6,744,367	\$ 1,186,782	\$ 22,150,617	\$ 3,358,863
Investments	-	-	-	-	-
Receivables	82,430	90,515	14,646	187,591	20
Due from other governmental units	-	-	-	-	-
Prepaid Items	253	210	33	496	-
Deposits	-	-	605	605	-
Interfund loan receivable	-	200,145	-	200,145	-
Inventories	80,465	323,557	-	404,022	-
Restricted assets:					
Cash and cash equivalents	58,957	77,911	-	136,868	-
Total current assets:	<u>14,441,573</u>	<u>7,436,705</u>	<u>1,202,066</u>	<u>23,080,344</u>	<u>3,358,883</u>
Noncurrent assets:					
Interfund loan receivable	-	889,508	-	889,508	-
Capital assets:					
Land	1,317,275	358,397	-	1,675,672	-
Construction in progress	3,236,740	2,026,688	217,814	5,481,242	-
Buildings	2,843,653	3,303,349	9,683	6,156,685	-
Leasehold improvements	-	19,422,000	-	19,422,000	-
Improvements other than buildings	48,480,079	4,801,412	7,721,712	61,003,203	-
Machinery and equipment	49,947	814,364	3,279	867,590	5,664,975
Intangible asset	9,244,346	15,665,032	137,297	25,046,675	-
Accumulated depreciation	(16,202,577)	(13,841,615)	(2,171,952)	(32,216,144)	(3,239,387)
Total noncurrent assets:	<u>48,969,463</u>	<u>33,439,135</u>	<u>5,917,833</u>	<u>88,326,431</u>	<u>2,425,588</u>
Total assets	<u>63,411,036</u>	<u>40,875,840</u>	<u>7,119,899</u>	<u>111,406,775</u>	<u>5,784,471</u>
LIABILITIES					
Current liabilities:					
Accounts payable	143,169	933,797	35,166	1,112,132	52,693
Due to other governments	97,536	66,559	32,560	196,655	-
Deposits	(294,073)	517,518	1,479	224,924	-
Accrued interest	397,827	87,040	-	484,867	-
Current portion of long-term debt	2,119,346	843,531	-	2,962,877	-
Other Liabilities	19,560	29,051	-	48,611	-
Total current liabilities:	<u>2,483,365</u>	<u>2,477,496</u>	<u>69,205</u>	<u>5,030,066</u>	<u>52,693</u>
Non current liabilities:					
Compensated absences	59,912	48,032	-	107,944	3,132
Revenue bonds payable	2,230,400	489,600	-	2,720,000	-
Public Works Trust Fund payable	9,399,932	8,867,740	-	18,267,672	-
Contract payable for purchase of water rights	2,880,368	-	-	2,880,368	-
Total Non current liabilities:	<u>14,570,612</u>	<u>9,405,372</u>	<u>-</u>	<u>23,975,984</u>	<u>3,132</u>
Total liabilities	<u>17,053,977</u>	<u>11,882,868</u>	<u>69,205</u>	<u>29,006,050</u>	<u>55,825</u>
NET POSITION					
Net investment in capital assets	33,337,418	22,348,756	5,917,833	61,604,007	2,425,588
Restricted for debt service	998,001	-	-	998,001	-
Restricted for replacement	-	-	-	-	3,261,853
Restricted for insurance	-	-	-	-	41,205
Unrestricted	12,021,640	6,644,216	1,132,861	19,798,717	-
Total net position	<u>\$ 46,357,059</u>	<u>\$ 28,992,972</u>	<u>\$ 7,050,694</u>	<u>82,400,725</u>	<u>\$ 5,728,646</u>

The notes are an integral part of the financial statements.

City of Bonney Lake
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2012

	Business-type Activities - Enterprise Funds				
	Water	Sewer	Stormwater	Total Proprietary Funds	Gov. Activities Internal Service Funds
Operating revenues:					
Charges for goods and services	\$ 8,156,631	\$ 4,670,824	\$ 1,659,423	\$ 14,486,878	\$ 1,503,619
Total operating revenues	<u>8,156,631</u>	<u>4,670,824</u>	<u>1,659,423</u>	<u>14,486,878</u>	<u>1,503,619</u>
Operating expenses:					
Cost of sales and services	2,780,471	2,578,283	741,883	\$ 6,100,637	657,966
Administration	679,170	512,316	173,559	1,365,045	92,791
Insurance	-	-	-	-	408,387
Taxes	808,563	396,378	153,792	1,358,733	-
Supplies	-	77,583	25,288	102,871	-
Depreciation	1,545,687	1,350,851	157,630	3,054,168	325,081
Total operating expenses	<u>5,813,891</u>	<u>4,915,411</u>	<u>1,252,152</u>	<u>11,981,454</u>	<u>1,484,225</u>
Operating income (loss)	<u>2,342,740</u>	<u>(244,587)</u>	<u>407,271</u>	<u>2,505,424</u>	<u>19,394</u>
Nonoperating revenues (expenses):					
Gain / (Loss) on retirement of assets	-	-	-	-	19,113
Investment earnings	24,726	12,463	1,922	39,111	5,740
Miscellaneous revenue	41,593	734	490	42,817	7,856
Grant income	-	-	21,862	21,862	-
Interest and other debt service cost	(230,913)	(85,395)	-	(316,308)	-
Total non operating revenue	<u>(164,594)</u>	<u>(72,198)</u>	<u>24,274</u>	<u>(212,518)</u>	<u>32,708</u>
Income (loss) before contributions and transfers	2,178,146	(316,785)	431,545	2,292,906	52,102
Capital contributions	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Change in net position	2,178,146	(316,785)	431,545	2,292,906	52,102
Net position-beginning	44,178,913	29,309,757	6,619,149	80,107,819	5,676,543
Net position-ending	<u>\$ 46,357,059</u>	<u>\$ 28,992,972</u>	<u>\$ 7,050,694</u>	<u>\$ 82,400,725</u>	<u>\$ 5,728,645</u>

The notes are an integral part of the financial statements.

City of Bonney Lake
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2012

	Business-type Activities - Enterprise Funds				Gov. Activities Internal Service Funds
	WATER	SEWER	STORM	TOTAL	
Cash flows from operating activities:					
Receipts from customers and users	\$ 8,117,238	\$ 4,720,162	\$ 1,615,130	\$ 14,452,530	\$ 1,503,619
Payments for taxes	(808,563)	(396,378)	(153,792)	(1,358,733)	-
Payments to employees	(1,669,697)	(1,139,006)	(63,541)	(2,872,244)	(92,791)
Payments for goods and services	(2,046,901)	(2,032,583)	(815,716)	(4,895,200)	(1,058,345)
Net cash provided (used) by operating activities	<u>3,592,077</u>	<u>1,152,195</u>	<u>582,081</u>	<u>5,326,353</u>	<u>352,483</u>
Cash flows from noncapital financing activities:					
Grants and contributions	-	-	21,862	21,862	-
Interfund loan payments	-	200,145	-	200,145	-
Nonoperating miscellaneous revenue	41,593	734	490	42,817	7,856
Net cash provided (used) by Noncapital financing	<u>41,593</u>	<u>200,879</u>	<u>22,352</u>	<u>264,824</u>	<u>7,856</u>
Cash flows from capital and related financing activities:					
Proceeds from capital debt	-	443,616	-	443,616	-
Debt principal payments	(1,794,531)	(818,708)	-	(2,613,239)	-
Interest paid on debt	(230,913)	(85,395)	-	(316,308)	-
Proceeds from sales of equipment or vehicles	-	-	-	-	19,113
Payment for capital acquisitions	(2,271,705)	(1,515,884)	(257,734)	(4,045,322)	(304,848)
activities	<u>(4,297,148)</u>	<u>(1,976,371)</u>	<u>(257,734)</u>	<u>(6,531,253)</u>	<u>(285,735)</u>
Cash flows from investing activities:					
Interest income	24,726	12,463	1,922	39,111	5,740
Other	-	-	-	-	-
Net cash provided (used) by investing activities	<u>24,726</u>	<u>12,463</u>	<u>1,922</u>	<u>39,111</u>	<u>5,740</u>
Net Increase (decrease) in cash and cash equivalents	(638,752)	(610,834)	348,621	(900,965)	80,344
Cash and cash equivalents, beginning of year	14,917,177	7,433,112	838,161	23,188,450	3,278,519
Cash and cash equivalents, end of the year	<u>\$ 14,278,425</u>	<u>\$ 6,822,278</u>	<u>\$ 1,186,782</u>	<u>\$ 22,287,485</u>	<u>\$ 3,358,863</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 2,342,740	\$ (244,587)	\$ 407,271	\$ 2,505,424	\$ (74,383)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	1,545,687	1,350,851	157,630	3,054,168	418,858
Changes in assets and liabilities:					
(Increase) decrease in customer accounts receivable	(39,393)	49,338	16,807	26,752	17,622
(Increase) decrease in prepaids	94	77	3,701	3,872	-
(Increase) decrease in inventory	-	-	(2)	(2)	-
Increase (decrease) in accounts payable	(256,957)	(3,407)	(36,830)	(297,194)	(9,614)
Increase (decrease) in deposits	(303,142)	(68,323)	944	(370,521)	-
Increase (decrease) in compensated absences	3,852	1,870	-	5,722	-
Increase (decrease) in due to other governments	(804)	66,376	32,560	98,132	-
Net cash provided by operating activities	<u>3,292,077</u>	<u>1,152,195</u>	<u>582,081</u>	<u>5,026,353</u>	<u>\$ 352,483</u>

The notes are an integral part of the financial statements.

City of Bonney Lake
 General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget (GAAP Basis) and Actual
 For the Year Ended December 31, 2012

	Budget Amounts		Actual Biennium Through 12/31/2012	Variance with Final Budget Over (Under)	Actual Biennium Through				
	Approved Original Budget 2011-2012 Biennium	Approved Revised Budget 2011-2012 Biennium			12/31/2011	12/31/2012			
	REVENUES								
	Taxes								
Property	\$ 5,773,022	\$ 5,423,614	\$ 5,113,272	\$ (310,342)	\$ 2,523,937	2,589,335			
Sales	7,299,770	7,056,209	6,764,194	(292,015)	3,388,997	3,375,197			
Business & Occupation	4,879,929	5,384,612	4,415,860	(968,752)	2,685,636	1,730,224			
Other	295,870	347,059	1,156,422	809,363	160,817	995,605			
Licenses and permits	1,015,865	888,115	1,183,150	295,035	430,146	753,004			
Intergovernmental	1,131,713	1,151,813	1,431,363	279,550	622,119	809,244			
Charges for services	3,779,427	3,262,151	2,224,283	(1,037,868)	381,676	1,842,607			
Fines and forfeitures	1,285,262	1,450,666	1,180,379	(270,287)	620,400	559,979			
Miscellaneous									
Interest Earnings	206,500	180,900	115,375	(65,525)	79,926	35,449			
Other	453,542	424,121	494,600	70,479	326,518	168,082			
Total revenues	26,120,900	25,569,260	24,078,899	(1,490,361)	11,220,173	12,858,726			
EXPENDITURES									
Current:									
General Government	6,793,891	6,774,624	6,900,504	125,880	3,074,383	3,826,121			
Public safety	10,539,879	10,524,381	10,309,159	(215,222)	5,005,402	5,303,757			
Utilities and environment	1,229,919	1,202,041	1,172,919	(29,122)	643,533	529,386			
Transportation	1,779,327	1,870,410	2,093,466	223,056	997,195	1,096,271			
Economic environment	4,370,473	3,809,552	3,313,550	(496,002)	1,963,776	1,349,774			
Culture and recreation	573,250	557,664	611,511	53,847	308,221	303,290			
Health and human services	-	-	342,125	342,125	3,138	338,987			
Debt Service	1,222,786	1,022,786	737,342	(285,444)	541,481	195,861			
Capital Outlay	41,800	41,800	55,242	13,442	55,242	0			
Total expenditures	26,551,325	25,803,258	25,535,818	(267,440)	12,592,371	12,943,447			
Excess (deficiency) of revenues over expenditures	(430,425)	(233,998)	(1,456,919)	(1,222,921)	(1,372,198)	(84,721)			
OTHER FINANCING SOURCES (USES)									
Contributions from property owners									
Transfers in	-	-	-	-	-	87,095			
Transfers out	(2,650,000)	(2,650,000)	(2,650,000)	-	(2,650,000)	-			
Total other financing sources (uses)	(2,650,000)	(2,650,000)	(2,650,000)	-	(2,650,000)	-			
Net change in fund balances	(3,080,425)	(2,883,998)	(4,106,919)	(1,222,921)	(4,022,198)	(84,721)			
FUND BALANCES, BEGINNING	4,742,993	4,742,993	4,742,993	-	4,742,993	2,428,686			
PRIOR PERIOD ADJUSTMENTS	-	-	-	-	-	-			
FUND BALANCES, ENDING	\$ 1,662,568	\$ 1,858,995	\$ 636,074	\$ (1,222,921)	\$ 720,795	\$ 2,343,965			

The notes are an integral part of the financial statements.

CITY OF BONNEY LAKE
Required Supplementary Information
For the Year ended December 31, 2012

Required Supplementary Information
Schedule of Funding Progress
for LEOFF 1 Retiree Medical Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
12/31/2009	0	242,411	242,411	0%	0	0
12/31/2010	0	235,963	235,963	0%	0	0
12/31/2011	0	244,302	244,302	0%	0	0
12/31/2012	0	254,531	254,531	0%	0	0

Schedule of Employer Contributions
for LEOFF 1 Retiree Medical Benefits

Fiscal Year Ending	Annual Required Contribution (ARC) Payments	Annual Required Contribution (ARC)	Percentage of ARC Contributed
12/31/2009	6,852	22,572	30.4%
12/31/2010	7,608	21,971	34.6%
12/31/2011	8,748	21,787	40.2%
12/31/2012	10,056	23,700	42.4%

CITY OF BONNEY LAKE
Notes to the Financial Statements
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the period of January 1, 2011 through December 31, 2011, the City of Bonney Lake reported financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting, and Reporting System* (BARS) Manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

For the period of January 1, 2012 through December 31, 2012, 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. This is a change in accounting principle. The significant accounting policies are described below.

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities. 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 properly included among program revenues are reported instead as general revenues.

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

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

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

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

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

The City reports the following major governmental funds:

- The General Fund is the City's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Street Construction Fund is used for capital purposes such as roads, streets, sidewalks and street lights.
- The Park Construction Fund is used for capital improvements that are parks related.
- The General Government Construction Fund is used for capital purposes.

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

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

Additionally, the City reports the following fund types:

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

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

these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

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

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

D. Budgetary Information

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

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

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

Amending the Budget

The city administrator, CFO, and mayor are authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the city council.

When council determines that it is in the best interest of the city to increase or decrease the appropriation for a particular fund, it may do so by resolution approved by one more than the majority after holding public hearing(s).

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

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

E. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

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

It is the City's policy to invest all temporary cash surpluses. At December 31, 2012, the treasurer was holding \$41,681,162 in cash and cash equivalents. 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.

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

2. Investments

Investments are valued at fair market value.

(See additional information at Note 4B.)

3. Receivables

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

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2012, \$4,500 of special assessments receivable were delinquent.

There is a running two-month lag in remittance of sales tax to the City. Sales taxes collected in November and December are not remitted by the State to the City until January and February of the following year and they are reported as receivables at year-end. There is no allowance for uncollectible sales taxes because all sales taxes are required by law to be collected by businesses at the time of sale and remitted to the State.

Interest receivable consists of interest earned on investments at the end of the year, and accrued interest and penalties on special assessments receivable.

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.

4. Amounts Due To and From Other Funds, Governments, and Interfund Loans

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund loans receivable/payable or advances to/from*

other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

(See additional information at Note 6d.)

5. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased.

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

6. Restricted Assets and Liabilities

These accounts contain resources for construction and debt service, including current and delinquent special assessments receivable, those monies reserved for customers’ deposits, bond reserve monies and impact fees. The current portion of related liabilities is shown as Payables from Current Restricted Assets. Specific debt service reserve requirements are described in Note 6, Long-Term Debt.

7. Capital Assets

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

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

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

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

Asset Type	Years
Office furniture	10
Computer equipment	4 - 5
Vehicles	5 - 7
Machinery and equipment	5 - 50
Other improvements	30 - 40
Buildings and structures	45 - 50

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

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

(See additional information at Note 5.)

8. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. Vacation pay, which may be accumulated up to a maximum of 240 hours or 30 days, is payable upon resignation, retirement or death.

In accordance with the provisions of GASB No. 16, Accounting for “Compensated Absences,” no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as “terminal leave” prior to retirement. Sick leave may accumulate up to a maximum of 960 hours. After 5 years employment, 25% of accumulated sick leave up to a maximum of 720 hours is payable upon resignation or layoff. Upon retirement, or death, 100% of accumulated sick leave up to a maximum of 720 hours is payable.

(See additional information at Note 6f.)

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

10. Long-Term Obligations

See Note 7, Long-Term Debt.

11. Unearned Revenues

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

12. Fund Balance Classification

The City of Bonney Lake reports the following about fund balance classification policies and procedures:

- a. *Nonspendable* – amounts that are not in a spendable form or are legally or contractually required to be maintained intact.
- b. *Restricted* – amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation.
- c. *Committed* – amounts that can be used only for the specific purposes determined by formal action of the City Council. Commitments may be changed or lifted by referring to the formal action that imposed the constraint originally.
- d. *Assigned* – amounts intended to be used by the government for specific purposes. Intent can be expressed by the City Council or the Mayor. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other government funds, at a minimum, are intended to be used for the purpose of that fund.

- e. *Unassigned* – includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

The responsibility for designating funds to specific classifications shall be as follows:

Committed Fund Balance – The City Council is the highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is established by ordinance approved by the Council.

When multiple categories of fund balance are available for expenditure, the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

Fund #	001	301	302	320		
	GF	Street CIP	Park CIP	Gen Gov CIP	Other Gov	Total
Nonspendable	0	0	0	0	0	0
Restricted	0	2,509,994	1,001,068	126,394	0	3,637,456
Committed	0	0	0	0	0	0
Assigned	0	3,556,382	760,946	5,240,814	60,806	9,618,948
Unassigned	<u>2,431,242</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(10,442)</u>	<u>2,420,800</u>
Total Fund Balance	2,431,242	6,066,376	1,762,014	5,367,208	50,364	15,677,204

Other Gov			
Fund Type	Fund #	Fund Name	Amount
Capital Proj	325	Civic Center CIP	33,747
Debt Svs	208	Debt Svs	27,059
Spec Rev	120	Drug	(1,593)
Debt Svs	233	LID	(8,849)
Total			50,364

NOTE 2 – VIOLATIONS OF FINANCE-RELATED LEGAL OR CONTRACTUAL PROVISIONS

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

NOTE 3 – PROPERTY TAXES

The County Assessor-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 percent of market value.
October 31	Second installment is due.

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

The city may levy up to \$3.6 per \$1,000 of assessed valuation for general governmental services, subject to two limitations:

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

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

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

The City's regular tax levy for the tax year 2012 was \$1.265 on an assessed valuation of \$1.99 billion for a total regular levy of \$2,516,516. Additionally, a special levy for debt service on the Public Safety

Building was \$0.182 per \$1,000 for a total additional levy of \$359,750. The total City property tax levies for tax year 2012 was \$1.447 per \$1,000 of assessed value yielding \$2,876,266.

NOTE 4 – DEPOSITIS AND INVESTMENTS

A. Deposits

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

Deposit custodial credit risk is the risk that in the event of a failure, the city's deposits may not be recovered. The Federal Deposit Insurance Commission (FDIC) insures the City's deposits up to \$250,000. The Washington Public Deposit Protection Commission (WPDPC) insures amounts over \$250,000. The WPDPC is a multiple financial institution collateral pool established by state statute, to protect public funds against loss. At year-end 2012, the bank balances of deposits were entirely insured through the FDIC and the WPDPC. The City had no custodial credit risk for deposits for the year ended 2012.

B. Investments

During 2012, the City had its entire investment in the Local Government Investment Pool (LGIP), which is an unrated 2a-7 like pool, as defined by GASB 31. Accordingly, participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 60 days. Per GASB 40 guidelines the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by the LGIP are either insured or held by a third-party custody provider in the LGIP's name. The fair value of the City's pool investments is determined by the pool's share price. The City has no regulatory oversight responsibility for the LGIP which is governed by the Washington State Finance Committee and is administered by the State Treasurer. The LGIP is audited annually by the Office of the State Auditor, an independently elected public official. The City includes the LGIP as an investment for internal tracking, but it is disclosed on the financial statements as a cash equivalent.

As of December 31, 2012, the City had a fair value of investment in the Local Government Investment Pool amounted to \$35,216,921.60.

NOTE 5 – CAPITAL ASSETS

A summary of capital assets activity for the year ended December 31, 2012 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 16,024,460	\$ 180,256	\$ -	\$ 16,204,716
Construction in progress	4,823,645	1,273,930	(315,834)	5,781,742
Total capital assets, not being depreciated	20,848,105	1,454,187	(315,834)	21,986,458
Capital assets, being depreciated:				
Buildings	11,162,834		-	11,162,834
Improvements other than buildings	7,442,685	324,444	-	7,767,129
Machinery and equipment	2,523,307	48,050	-	2,571,357
Rolling Stock	5,484,582	302,997	(122,604)	5,664,975
Infrastructure	17,104,312	436,909	-	17,541,221
Total capital assets being depreciated	43,717,719	1,112,400	(122,604)	44,707,515
Less accumulated depreciation for:				
Buildings	(3,614,994)	(468,524)	-	(4,083,518)
Improvements other than buildings	(1,323,585)	(406,466)	-	(1,730,051)
Machinery and equipment	(1,906,890)	(111,320)	-	(2,018,210)
Rolling Stock	(3,036,910)	(325,081)	122,604	(3,239,387)
Infrastructure	(7,360,000)	(497,317)	-	(7,857,317)
Total accumulated depreciation	(17,242,379)	(1,808,708)	122,604	(18,928,483)
Total capital assets, being depreciated, net	26,475,340	(696,308)	-	25,779,031
Governmental activities capital assets, net	\$ 47,323,445	\$ 757,879	\$ (315,834)	\$ 47,765,489
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 1,675,671	\$ -	\$ -	\$ 1,675,671
Construction in progress	2,478,831	3,751,648	(749,237)	5,481,242
Total capital assets, not being depreciated	4,154,502	3,751,648	(749,237)	7,156,913
Capital assets, being depreciated:				
Buildings	6,064,185	92,500	-	6,156,685
Leasehold Improvements	19,422,000	-	-	19,422,000
Improvements other than buildings	60,117,697	885,506	-	61,003,203
Machinery and equipment	867,590	-	-	867,590
Intangible assets	25,046,675	-	-	25,046,675
Total capital assets being depreciated	111,518,147	978,006	-	112,496,152
Less accumulated depreciation for:				
Buildings	(1,390,690)	-	(120,905)	(1,511,595)
Leasehold Improvements	(4,127,175)	-	(485,550)	(4,612,725)
Improvements other than buildings	(13,003,884)	-	(1,275,486)	(14,279,370)
Machinery and equipment	(776,077)	-	(37,607)	(813,684)
Intangible assets	(9,864,110)	-	(1,134,620)	(10,998,730)
Total accumulated depreciation	(29,161,936)	-	(3,054,168)	(32,216,104)
Total capital assets, being depreciated, net	82,356,210	978,006	(3,054,168)	80,280,048
Business-type activities capital assets, net	\$ 86,510,713	\$ 4,729,654	\$ (3,803,405)	\$ 87,436,961

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

Governmental activities:	
General government	\$ 400,316
Public safety	348,629
Physical Environment	248,287
Transportation	704,348
Health & Human Services	20,052
Economic Environment	2,684
Culture & Recreation	84,392
Total depreciation expense - governmental activities	<u>\$ 1,808,708</u>
Business-type activities:	
Water	\$ 1,545,687
Sewer	1,350,851
Stormwater	157,630
Total depreciation expense - business type activities	<u>\$ 3,054,168</u>

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

<i>Governmental Activities</i>	Spent-to-Date	Remaining Commitment
Streets Capital Projects (301)		
Bonney Lake Blvd Reconstruction	\$ 8,610	\$ 16,390
Church Lake Drive Overlay	\$ 3,922	\$ 11,078
	\$ 3,539	\$ 11,461
80th & 82 st sidewalks	315,834	9,166
Transportation Comp Plan- Roadways	47,263	177,737
Sumner BuckleyHwy -SR 410 to Main St.Intersection	2,707,436	-
214th Ave Intersection Imprmt	825,821	331,179
Main Street/SR 410 Intersection	1,005,475	1,193,485
Eastown- SR410 Street Light Project	137,947 #	102,053
Streetlight Project	4,500 #	15,500
Subtotal Street Capital Improvement Fund	<u>5,060,348</u>	<u>1,868,049</u>
Parks Capital Projects (302)		
Fenell Crk Trail / Safe Routes - Sidewalks	613,074	1,053,926
Allen York Park- Dike#13	47,989	247,011
Allen York Park- Sport/Tennis Court	57,428	50,572
Subtotal Parks Capital Improvement Fund	<u>718,490</u>	<u>1,351,510</u>
General Government Capital Projects (320)		
Justice& Municipal Center & Improvments	176,982	-
Civic Center	25,298	224,702
General Government Capital Projects (325)		
NONE	-	
Subtotal General Government Capital Improvement Fund	<u>202,280</u>	<u>224,702</u>
Total Governmental Funds	<u>\$ 5,981,118</u>	<u>\$ 3,444,261</u>

NOTE 6 – LONG-TERM DEBT

The City of Bonney Lake issued general obligation bonds to finance the construction on the Justice Center. Bonded indebtedness has also been entered into (currently ad in prior years) to advance/refund revenue bonds. General obligation and revenue bonds that have been issued for both general government and business-type activities are being repaid from the applicable resources. The revenue bonds are being repaid by proprietary fund revenues. The City of Bonney Lake is also liable for notes that were entered into for the purchase of Motorola 800MHz radios. These notes are considered obligations of the general government and are being repaid with general government revenue sources.

A. General Obligation Bonds

At December 31, 2012, the general obligation bonds payable consist of the following issues for governmental activities:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
Justice Center	25 yrs	3.15% - 4.50%	10,000	275,000

The annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2012	275,000.00	386,413
2013	285,000.00	376,100
2014	295,000.00	364,700
2015	305,000.00	352,900
2016	320,000.00	340,700
2017	330,000.00	327,900
2018	345,000.00	314,700
2019	365,000.00	297,450
2020	380,000.00	281,025
2021	395,000.00	263,925
2022	415,000.00	246,150
2023	430,000.00	227,475
2024	450,000.00	209,200
2025	470,000.00	190,075
2026	490,000.00	170,100
2027	510,000.00	149,275
2028	530,000.00	127,600
2029	555,000.00	104,280
2030	580,000.00	79,860
2031	605,000.00	54,340
2032	630,000.00	27,720
Total	\$8,960,000	\$4,891,888

B. Revenue Bonds

The revenue bond currently outstanding is as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
Refund 1998 & 1999 Revenue Bonds	12 Years	3.5% - 4.0%	\$4,570,000	\$415,000

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
2012	415,000.00	143,020.00
2013	430,000.00	126,420.00
2014	445,000.00	109,220.00
2015	465,000.00	91,420.00
2016	475,000.00	72,820.00
2017	495,000.00	53,820.00
2018	415,000.00	34,020.00
2019	425,000.00	17,212.50
Total	3,565,000.00	647,952.50

C. Public Works Trust Fund Loans

At December 31, 2012, the Public Works Trust Fund loans payable consist of the following issues:

Loan Number	Description	Annual Installment	End of Yr Bal
PW-97-791-017	Ponderosa Reservoir #2 - Construction	50,468	252,340
PW-98-78898-07	Corrosion Control Facility	14,974	104,820
PW-98-78898-08	Lakeridge Booster Pump Station	37,657	263,601
PW-98-791-006	Ponderosa Reservoir #2 - 800 Zone Overflow Construction	14,995	89,972
PW-00-691-008	McGhee Water Main Replacement	38,306	306,451
PW-03-691-003	Spring Sources Water Quality Treatment Facilities	63,715	700,870
PW-04-691-008	Ball Park Well Water Quality Treatment Facility	178,676	2,144,118
PW-04-691-009	Leak Reduction Program	247,456	2,969,468
PW-05-96-791-004	Church Lake/Inlet Island Watermain Replacement	66,057	264,228
PW-PC-08-951-004	Leak Reduction Program Phase II	279,797	3,217,460
PW-02-691-006	Sumner Sewer Treatment Plant Upgrade	373,047	3,730,470
PW-04-691-007	Sumner Sewer Treatment Plant Upgrade	105,450	1,265,400
PW-06-962-ELP-302	Emergency Sewer Main Replacement	26,316	368,421
PW-PC-08-951-005	Reconstruct Trunk Sewer to Sumner WWTP	239,195	3,827,125
	Total	1,736,109	19,504,744

BARS Liability I.D. Number	Description	Beginning Bal. 1/1/2012	Additions	Reductions	Adjustments	BARS Code for Redemption of Debt Only	Ending Balance, Debt @ 12/31/2012
Governmental Activities							
251.11	2007 G.O. Debt-Justice Center	\$8,960,000		\$275,000		320.017.090.592.20.70	\$8,685,000
263.51	Motorola 800 MHz Equipment	\$1,286,028		\$174,268		001.000.090.528.01.79	\$1,111,760
	Subtotal	\$10,246,028	\$0	\$449,268	\$0		\$9,796,760
259.11	Compensated Absences	\$852,848		\$19,797			\$833,051
Total Governmental Activities		\$11,098,876	\$0	\$469,065	\$0		\$10,629,811
Business Type Activities							
Public Works Trust Fund Loans:							
251.19	PW 02-691-006 Sumner Trt Pnt	\$4,103,516		\$373,047		402.000.035.582.90.72	\$3,730,469
	PW 04-691-009 Leak Reduction Pgm	\$3,216,932		\$247,455		401.000.034.582.90.78	\$2,969,477
	PW 04-691-008 Ballpark Well treatmnt	\$2,322,795		\$178,676		401.000.034.582.90.78	\$2,144,119
	PW 03-691-003 Spring Source H2O	\$764,586		\$63,715		401.000.034.582.90.78	\$700,871
	PW 04-691-007 Sewer Trt Pnt Upgde	\$1,370,848		\$105,450		402.000.035.582.90.72	\$1,265,398
	PW 5-96-791-004 Church Lake Main	\$330,285		\$66,057		401.000.034.582.90.78	\$264,228
	PW 06-962-ELP-302 Reconst Sewer to	\$394,737		\$26,316		402.000.035.582.90.72	\$368,421
	PW 00-691-008 McGhee Drive Water	\$344,758		\$38,306		401.000.034.582.90.78	\$306,452
	PW 97-791-017 Ponderosa Const	\$302,808		\$50,468		401.000.034.582.90.78	\$252,340
	PW 98-78898-08 Lakeridge Pmp Sta.	\$301,257		\$37,657		401.000.034.582.90.78	\$263,600
	PW 98-78898-07 Corrosion Control	\$119,794		\$14,974		401.000.034.582.90.78	\$104,820
	PW 98-791-006 Ponderosa Overflow	\$104,966		\$14,996		401.000.034.582.90.78	\$89,970
	PC 08-951-004 Leak Reduction II	\$3,418,551		\$201,091		401.000.034.582.90.78	\$3,217,460
	PC 08-951-005 Reconstruct Sw r line	\$4,066,320		\$239,195		402.000.035.582.90.72	\$3,827,125
	PC 12-951-045 Waste Water Treatment Pnt	\$442,454		\$0			\$442,454
	Sutotool Trust Fund Loans	\$21,604,607	\$0	\$1,657,403	\$0		19,947,204
252.11	2007 Water/Sewer Refunding Bonds	\$3,565,000		\$340,300		401.000.034.582.90.75	\$3,150,000
				\$74,700		402.000.035.582.35.72	
263.61	City of Tacoma Syst Dev Chgs	\$1,848,511		\$462,128		401.000.034.582.90.78	\$1,386,383
							\$0
284.22	Cascade Water Alliance	\$2,547,334		\$200,000		401.000.034.594.34.61	\$2,347,334
259.12	Compensated Absences	\$110,448	\$629				\$111,077
Total Business Type Activities		\$29,675,900	\$629	\$2,734,531	\$0		\$26,941,998

D. Interfund Loans And Advances

Within the City, one fund may borrow from another when specifically authorized by the City Council resolution. The activity and balances of interfund loans at December 31, 2012 are as follows:

Lending Fund	Borrowing Fund	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year
Sewer Fund	Parks Capital Fund	1,089,653	0	0	1,089,653

E. Other Debt

At December 31, 2012, the other debt balances of the following issues:

City of Tacoma SDCs	\$1,386,384
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Motorola	\$1,111,759
CWA SDCs	\$2,347,344
Total Other Debt	\$4,845,487

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each debt type for the years subsequent to December 31, 2012 are as follows:

General Obligation Bonds						
Year	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
			-	-	-	-
2013	285,000	376,100	661,100	-	-	-
2014	295,000	364,700	659,700	-	-	-
2015	305,000	352,900	657,900	-	-	-
2016	320,000	340,700	660,700	-	-	-
2017-2021	1,815,000	1,485,000	3,300,000	-	-	-
2022-2026	2,255,000	1,043,000	3,298,000	-	-	-
2027-2031	2,780,000	515,355	3,295,355	-	-	-
2032	630,000	27,720	657,720	-	-	-
	<u>\$ 8,685,000</u>	<u>\$ 4,505,475</u>	<u>\$ 13,190,475</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Revenue Bonds						
Year	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
	-	-	-	-	-	-
2013	-	-	-	430,000	126,420	556,420
2014	-	-	-	445,000	109,220	554,220
2015	-	-	-	465,000	91,420	556,420
2016	-	-	-	475,000	72,820	547,820
2017-2019	-	-	-	1,335,000	105,053	1,440,053
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,150,000</u>	<u>\$ 504,933</u>	<u>\$ 3,654,933</u>

F. Changes in Long-Term Liabilities

Governmental Funds	Beginning Bal 1/1/12	Additions	Reductions	Ending Bal 12/31/12	Due in	Due in More
					1 Year (2013)	Than 1 Year
2008 Justice Center	8,960,000	-	275,000.00	8,685,000.00	285,000	8,400,000
Motorola 800MHz	1,286,027	-	174,268.18	1,111,758.85	182,270	929,489
Interfund Loan - Allan Yorke Park	1,089,653	-	-	1,089,652.68	200,145	889,507
Total	11,335,680	0	449,268	10,886,411.53	667,415	10,218,996
Business-Type Funds						
Ponderosa Reservoir #2 - Construction	302,808	-	50,468.04	252,340.20	50,468	201,872
Corrosion Control Facility	119,795	-	14,974.32	104,820.19	14,974	89,846
Lakeridge Booster Pump Station	301,258	-	37,657.26	263,600.88	37,657	225,944
Ponderosa Reservoir #2 - 800 Zone Overflow Construction	104,967	-	14,995.26	89,971.54	14,995	74,976
McGhee Water Main Replacement	344,757	-	38,306.37	306,451.01	38,306	268,145
Spring Sources Water Quality Treatment Facilities	764,585	-	63,715.46	700,869.98	63,715	637,155
Ball Park Well Water Quality Treatment Facility	2,322,794	-	178,676.47	2,144,117.65	178,676	1,965,441
Leak Reduction Program	3,216,924	-	247,455.67	2,969,468.08	247,456	2,722,012
Church Lake/Inlet Island Watermain Replacement	330,285	-	66,056.98	264,227.94	66,057	198,171
Leak Reduction Program Phase II	3,418,551	-	201,091.00	3,217,460.00	201,091	3,016,368
2007 Water/Sewer Refunding Bond	3,565,000	-	415,000.00	3,150,000.00	430,000	2,720,000
City of Tacoma SDCs	1,848,511	-	462,127.84	1,386,383.52	462,128	924,256
CWA SDCs	2,547,334	-	200,000.00	2,347,334.00	391,222	1,956,112
Sumner Sewer Treatment Plant Upgrade	4,103,517	-	373,047.00	3,730,470.00	373,047	3,357,423
Sumner Sewer Treatment Plant Upgrade	1,370,850	-	105,450.00	1,265,400.00	105,450	1,159,950
Emergency Sewer Main Replacement	394,737	-	26,315.79	368,421.05	26,316	342,105
Reconstruct Trunk Sewer to Sumner WWTP	3,411,366	-	239,195.33	3,172,170.51	239,195	2,932,975
Sumner /Bonney Lake Wastwater Treatment Plant Upgrade	442,454	442,454	0	884,908.12	31,587	900,719
Total	28,910,493	442,454	2,734,533	26,618,415	2,972,342	23,693,470

NOTE 7 – POST EMPLOYMENT BENEFITS

A. Pension Plans

All City of Bonney Lake full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

Plan Description

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

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service,

if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or they may retire at age 55 with 10 years of service. Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Nonvested	46,839
Total	261,705

Judicial Benefit Multiplier

Beginning January 1, 2007 through December 31, 2011, judicial members of PERS were given the choice to participate in the Judicial Benefit Multiplier Program (JBM). Justices and judges in PERS Plan 1 and 2 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5% multiplier. The benefit would be capped at 75% of AFC. The City of Bonney Lake has one employee enrolled in this program. Judges in PERS Plan 3 could elect a 1.6% of pay per year of service benefit, capped at 37.5% of average compensation.

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

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

Funding Policy

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

rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, were as follows:

Members Not Participating in JBM			
	<u>PERS - Plan 1</u>	<u>PERS - Plan 2</u>	<u>PERS - Plan 3</u>
Employer *	7.21%**	7.21%**	7.21%***
Employee	6%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.645 for Plan 2.

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

Members Participating in JBM

	<u>PERS - Plan 1</u>	<u>PERS - Plan 2</u>	<u>PERS - Plan 3</u>
Employer *	7.21%	7.21%	7.21%
Employee	12.26%	11.60%	7.50% **
* The employer rates include the employer administrative expense fee currently set at 0.16%.			
** Minimum rate			

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

	<u>PERS - Plan 1</u>	<u>PERS - Plan 2</u>	<u>PERS - Plan 3</u>
2012	15,994	384,657	52,402
2011	12,688	319,186	43,475
2010	10,559	259,474	32,207

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

Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement officers, firefighters and, as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception.

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

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

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

Term of Service	Percent of Final Average Salary
20 or more years	2.0%

10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

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

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

There are 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	9,974
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	656
Active Plan Members Vested	13,942
Active Plan Members Nonvested	3,113
Total	<u>27,685</u>

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. All employers are required to contribute at the level required by state law.

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, were as follows:

	<u>LEOFF - Plan 1</u>	<u>LEOFF - Plan 2</u>
Employer *	0.16%	5.24%
Employee	0.00%	8.46%
* The employer rates include the employer administrative expense fee currently set at 0.16%.		

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

	LEOFF - Plan 1	LEOFF - Plan 2
2012	0	132,254
2011	0	130,251
2010	0	132,840

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS

1. Association of Washington Cities Employee Benefit Trust (“Trust”)

Trust Description: In addition to the pension benefits described in Note 7, the City of Bonney Lake is a participating employer in the Association of Washington Cities (AWC) Employee Benefit Trust, a cost-sharing multiple-employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of participating employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and the nature of the medical and other benefits provided by the trust. The Trust issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. That report, along with a copy of the Trust document, may be obtained by writing to the Association of Washington Cities Employee Benefit Trust at 1076 Franklin Street, Olympia, WA 98501-1346 or calling 1-800-562-8981.

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

In 2012, there were 274 employers enrolled in the AWC Employee Benefit Trust Membership. All the risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the employers. A single actuarial valuation covers all plan members, and the same contribution rate(s) apply to each employer.

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

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

Participating employers are contractually required to contribute at a rate assessed each year by the Trust. The City's contributions to the Trust for the year ended December 31, 2012 were \$0, as the City has no participating retirees within the AWC Trust.

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

2. Law Enforcement Officers and Firefighters (LEOFF)

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

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

Amendments to the plan may be made through State statute.

Membership: Membership in LEOFF 1 includes participants who joined the system by September 30, 1977. As of December 31, 2012, one City employee meets this requirement. This is considered a closed group. No new members are permitted.

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

Annual OPEB Cost and Net OPEB Obligation: The City's annual other post-employment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of fifteen years as of January 1, 2012.

The City was required to contribute \$23,700 (Annual Required Contribution, or ARC), but only contributed \$10,056 at December 31, 2012. For the City's single retired LEOFF 1 member, the City purchased health insurance from the United Benefit Trust. The retired law enforcement employee received a benefit contribution of \$838 per month, or \$10,056 per year, for retiree-only coverage. This differs from the Annual

Required Contribution (ARC) because the plan is financed on a pay-as-you-go basis. The difference between the OPEB Costs and the required contribution is called the Net OPEB Obligation (NOO).

	Fiscal Year
	Ending
Determination of Required Annual Contributions	12/31/12
Normal Cost	0
Amortization of Unfunded Actuarial Accrued Liability (UAAL)	23,700
Annual Required Contributions (ARC)	23,700
Determination of Net OPEB Obligation	
Annual Required Contributions (ARC)	23,700
Interest on Net OPEB Obligation	1,985
Net OPEB Obligation Amortization	(4,108)
Annual OPEB Cost	21,577
Contributions Made	(10,056)
Increase in Net OPEB Obligation	11,521
Net OPEB Obligation - January 1, 2012	44,121
Net OPEB Obligation - December 31, 2012	55,642

The City's annual OPEB cost, the percentage of OPEB contributed to the plan, and the net OPEB obligation for 2012 is as follows:

	Annual		% of	Net
	OPEB	Employer	OPEB Cost	OPEB
Year	Cost	Contribution	Contributed	Obligation
2012	21,578	10,056	46.6%	54,131
2011	21,787	8,748	40.2%	44,121
2010	23,179	7,608	32.8%	16,327

As of January 1, 2012, the plan was 0% funded. The accrued liability for benefits was \$254,531 and the actuarial valuation of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$254,531.

Methodology and Actuarial Assumptions: The City used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2010 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2010. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 10 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

NOTE 9 - ACCOUNTING AND REPORTING CHANGES

For the period of January 1, 2011 through December 31, 2011, the City of Bonney Lake reported financial activity using the revenue and expenditure classifications, statements, and schedules contained in the Cash Basis Budgeting, Accounting, and Reporting System (BARS) Manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State Law, Chapter 43.09 RCW.

For the period of January 1, 2012 through December 31, 2012, the City of Bonney Lake reported financial activity 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.

NOTE 10 – OTHER DISCLOSURES

A. Risk Management

The City of Bonney Lake is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 126 Members.

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

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

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance. In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

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

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

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

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

B. Subsequent Events

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