



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

**Financial Statements and Federal Single Audit
Report**

City of Bonney Lake

Pierce County

For the period January 1, 2013 through December 31, 2013

Published September 18, 2014

Report No. 1012574





Washington State Auditor
Troy Kelley

September 18, 2014

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

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Bonney Lake's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Federal Summary

City of Bonney Lake Pierce County January 1, 2013 through December 31, 2013

The results of our audit of the City of Bonney Lake are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City did not qualify as a low-risk auditee under OMB Circular A-133.

Status of Prior Audit Findings

City of Bonney Lake Pierce County January 1, 2013 through December 31, 2013

The status of finding contained in the prior years' audit reports of the City of Bonney Lake is provided below:

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

Report No. 1011589, dated March 31, 2014

Background

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

Status

The condition reported during the 2012 audit has been resolved. The 2013 financial statements were submitted timely and there were no material weaknesses or significant deficiencies in internal control identified in the current audit.

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

**City of Bonney Lake
Pierce County
January 1, 2013 through December 31, 2013**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bonney Lake, Pierce County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 10, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

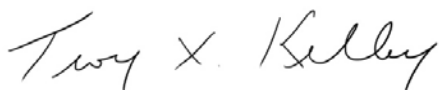
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

September 10, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**City of Bonney Lake
Pierce County
January 1, 2013 through December 31, 2013**

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Bonney Lake, Pierce County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

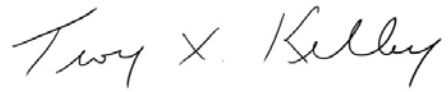
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

September 10, 2014

Independent Auditor's Report on Financial Statements

**City of Bonney Lake
Pierce County
January 1, 2013 through December 31, 2013**

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bonney Lake, Pierce County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 15.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bonney Lake, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

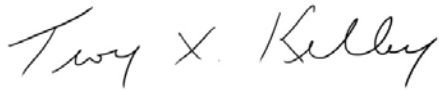
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 25, budgetary comparison information on page 57 and the schedule of funding progress and schedule of employer contributions for post-employment benefits other than pensions on page 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

September 10, 2014

Financial Section

**City of Bonney Lake
Pierce County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Statement of Activities – 2013

Balance Sheet – Governmental Funds – 2013

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2013

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2013

Statement of Net Position – Proprietary Funds – 2013

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2013

Statement of Cash Flows – Proprietary Funds – 2013

Notes to Financial Statements – 2013

REQUIRED SUPPLEMENTARY INFORMATION

General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget (GAAP Basis) and Actual – 2013

Schedule of Funding Progress and Schedule of Employer Contributions for LEOFF 1 Retiree Medical Benefits – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

**City of Bonney Lake
Management's Discussion and Analysis (MD&A)
For the Year Ending December 31, 2013**

The City of Bonney Lake presents this Management's Discussion and Analysis (MD&A) of its financial activities for the fiscal year ended December 31, 2013. This MD&A provides an overview of the City's financial activities, and highlights significant changes in the City's financial positions.

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, 2013 total assets of the City exceeded its liabilities by \$ 142.8 million. Of this amount, \$ 35.5 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 \$ 3.5 million.
- Capital assets increased approximately \$ 1.3 million, largely due to the completion of the Justice and Municipal Center.
- The City's governmental funds reported combined ending fund balances of \$ 14 million.
- The General Fund reported an unassigned fund balance of \$3 million.

Budget Adjustments

The difference between the original budget and final budget for general fund for the biennium 2013-2014 totaled an increase of \$655,715 in revenues and \$787,723 in expenditures.

Overview of the Financial Statements

This MD&A is intended to introduce and explain the City's basic financial statements for fiscal 2013. Throughout this document we have included several spreadsheets that compare financial data for fiscal 2013 to fiscal 2012 in order to provide perspective for financial statement readers. 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 Fund which are all considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report. The City adopts a biennial appropriated budget for all of its funds.

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. Data from the other two proprietary funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major proprietary funds is provided in the form of *combining statements* elsewhere in this report. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

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. Combining and individual fund statements and schedules for the non-major governmental funds and the internal service funds can be found under this section.

Government-wide Financial Analysis

Statement of Net Position

The Statement of Net Position may serve as a useful indicator of a government's financial position. The City's net position at December 31, 2013 total \$142.8 million. The table below summarizes the City's Statement of Net Position for the year ending 2013.

	City of Bonney Lake's Net Position					
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	20,396,716	22,166,988	22,433,747	23,969,852	42,830,463	46,136,840
Capital assets, net of accumulated depreciation	48,718,156	47,765,489	87,813,310	87,436,923	136,531,466	135,202,412
Total assets	69,114,872	69,932,477	110,247,057	111,406,775	179,361,929	181,339,252
Long-term liabilities	9,736,080	9,329,489	20,513,325	23,868,040	30,249,405	33,197,529
Other liabilities	2,563,059	3,921,425	3,763,279	5,138,010	6,326,338	9,059,435
Total liabilities	12,299,139	13,250,914	24,276,604	29,006,050	36,575,743	42,256,964
Net position:						
Net investment in capital assets	39,386,621	38,042,161	64,482,746	61,604,007	103,869,367	99,646,168
Restricted	485,639	167,654	2,925,814	998,001	3,411,453	1,165,655
Unrestricted	16,943,474	18,471,748	18,561,894	19,798,717	35,505,368	38,270,465
Total net position	56,815,734	56,681,563	85,970,454	82,400,725	142,786,188	139,082,288

The most significant portion of 2013 net position (74%) 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* (\$35.5 million) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the 2013 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.

Change in Net Position

The changes in net position table illustrates the increases or decreases in net position of the City resulting from its operating activities. The table below summarizes the City's Statement of Activities for fiscal 2013:

City of Bonney Lake's Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Charges for services	4,183,413	4,432,416	15,670,262	14,486,878	19,853,675	18,919,294
Operating grants and contributions	653,436	1,329,182	0	21,862	653,436	1,351,044
Capital grants and contributions	1,156,391	247,095	501,165	0	1,657,556	247,095
General Revenues:						
Property tax	2,635,753	2,589,335	0	0	2,635,753	2,589,335
Sales tax	3,720,172	3,375,197	0	0	3,720,172	3,375,197
B&O taxes	2,820,847	1,730,224	0	0	2,820,847	1,730,224
Excise taxes	551	493,046	0	0	551	493,046
Utility and other taxes	644,574	983,593	0	0	644,574	983,593
Investment earnings	59,674	61,200	89,133	39,111	148,807	100,311
Miscellaneous revenues	533,146	257,169	119,270	42,817	652,416	299,986
Special Item - Gain (loss) on sale of capital asset	(1,211,640)	0	0	0	(1,211,640)	0
Total Revenue	15,196,317	15,498,457	16,379,830	14,590,668	31,576,147	30,089,125
Expenses:						
General Government	4,897,158	4,266,110	0	0	4,897,158	4,266,110
Public safety	5,869,101	5,652,386	0	0	5,869,101	5,652,386
Physical environment	14,103	788,548	0	0	14,103	788,548
Transportation	1,745,818	1,800,619	0	0	1,745,818	1,800,619
Health and human services	39,658	359,039	0	0	39,658	359,039
Economic environment	1,654,985	1,352,458	0	0	1,654,985	1,352,458
Culture and recreation	412,809	387,682	0	0	412,809	387,682
Interest on long-term debt	428,514	447,486	0	0	428,514	447,486
Water	0	0	6,595,773	6,044,804	6,595,773	6,044,804
Sewer	0	0	5,040,981	5,000,806	5,040,981	5,000,806
Stormwater	0	0	1,373,493	1,252,152	1,373,493	1,252,152
Total Expenses	15,062,146	15,054,328	13,010,247	12,297,762	28,072,393	27,352,090
Increase (Decrease) in net position	134,171	444,129	3,369,583	2,292,906	3,503,754	2,737,035
Transfers	0	0	0	0	0	0
Change in net position	134,171	444,129	3,369,583	2,292,906	3,503,754	2,737,035
Net position - beginning	56,681,563	56,237,434	82,400,725	80,107,819	139,082,288	136,345,253
Prior period adjustment	0	0	200,145	0	200,145	0
Net position - ending	56,815,734	56,681,563	85,970,453	82,400,725	142,786,187	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 \$ 3,503,755.

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.

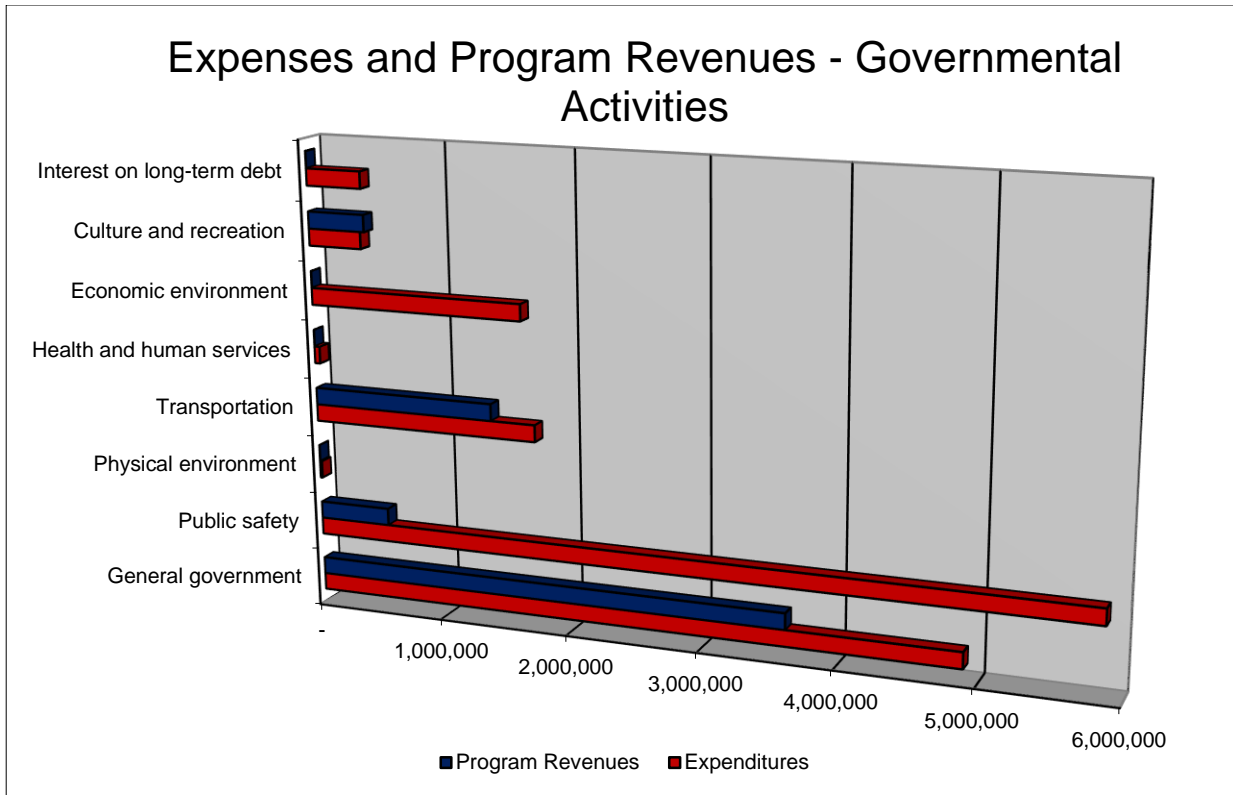
Governmental activities

There is a small increase in total net position of \$ 134,171. Governmental activities accounts for 39.79% of the City’s net position in 2013.

Key elements of the 2013 changes are as follows:

- Total assets from Governmental activities decreased by \$ 817,606. Cash and cash equivalents showed a decrease of \$ 2,685,315 from 2012 to 2013 while investments in capital assets increased by \$ 1.3 million (after a loss of \$1,211,640 from selling a piece of land and a value of \$2,556,730 removed from fixed assets). This is the result of the City’s plans for investments in capital assets, particularly the completion of the Justice & Municipal Center, and improvements surrounding this building.
- Total liabilities from Governmental activities decreased by \$951,777. Accounts payable and other liabilities decreased by \$951,775 and \$683,022 respectively.
- Total general revenues decreased by \$ 312,787. This decrease is mainly related to a loss on sale of capital asset in 2013.
- Total expenditures increased by \$7,818. As mentioned above, this increase is due to the City’s investments in capital assets

The graph below compares program revenues to program expenses from the Statement of Activities and illustrates the revenue by source separately for the governmental activities in 2013



Business-type activities

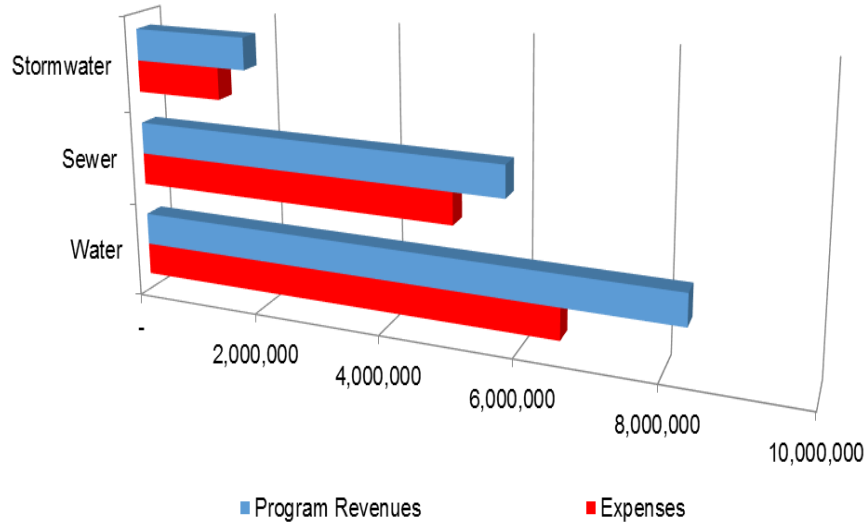
The total net position increased by \$3,569,729. Business-type activities accounts for 60.2% of the City’s net position.

Key elements of this increase are as follows:

- Investment in capital assets increased by \$952,667 between 2012 and 2013
- Revenues increased by \$1,076,677.
- Cash and cash equivalents decreased by \$1,4 million but accounts payable and long – term debt decreased by \$ 824,068 and \$ 3,391,778 respectively.

The graph below compares program revenues to program expenses from the Statement of Activities and illustrates the revenue by source separately for the business-type activities in 2013

Expenses and Program Revenues - Business Type Activities



Capital Assets

The following table summarizes the City's capital asset balances at December 31, 2013:

City of Bonney Lake's Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	13,744,357	16,204,716	1,725,671	1,675,671	15,470,028	17,880,387
Construction in progress	7,537,572	5,781,742	3,142,442	5,481,242	10,680,014	11,262,984
Buildings	7,479,401	7,079,316	7,149,831	4,645,090	14,629,232	11,724,406
Improvements other than buildings	7,877,788	6,037,078	48,505,446	46,723,833	56,383,234	52,760,911
Infrastructure	9,177,189	9,683,904	0	0	9,177,189	9,683,904
Machinery and equipment	567,434	553,147	17,938	53,906	585,372	607,053
Rolling stock	2,334,416	2,425,588	0	0	2,334,416	2,425,588
Leasehold improvements	0		14,323,725	14,809,275	14,323,725	14,809,275
Intangible assets	0		12,948,258	14,047,945	12,948,258	14,047,945
Total	48,718,157	47,765,491	87,813,311	87,436,962	136,531,468	135,202,453

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.

Long-Term Debt

At the end of 2013, the City of Bonney Lake had total debt outstanding of \$32.6 million. This debt is comprised of general obligation bonds, revenue bonds, installment contracts, and public works trust fund loans.

Long-Term Debt Outstanding Balances

	Governmental	Business Type	Total
General obligation bonds	8,400,000		8,400,000
PWTF Loans	0	17,727,901	17,727,901
Revenue bonds	0	2,720,000	2,720,000
Installment contracts	<u>931,535</u>	<u>2,880,368</u>	<u>3,811,903</u>
Total	9,331,535	23,328,269	32,659,804

The City’s total debt decreased by \$3.8 million, due to annual debt service payments. Additional information on the City of Bonney Lake’s long-term debt can be found in Note 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.

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, culleont@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, 2013

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and cash equivalents	\$ 16,708,362	\$ 20,730,746	\$ 37,439,108
Investments	-	-	-
Receivables	3,177,002	157,339	3,334,341
Due from other governments	1,585,699	-	1,585,699
Inventories	-	311,252	311,252
Internal Balances	(1,089,652)	1,089,652	0
Prepaid items	980	-	980
Restricted assets:			
Cash and cash equivalents	-	139,943	139,943
Deposits	14,325	4,815	19,140
Capital Assets:			
Non-depreciable	21,281,929	4,868,112	26,150,041
Depreciable (net)	27,436,227	82,945,198	110,381,425
Total assets	<u>69,114,872</u>	<u>110,247,057</u>	<u>179,361,929</u>
LIABILITIES			
Accounts payable	556,854	288,064	844,919
Contracts payable	69,075	-	69,075
Due to other governments	10,464	938	11,402
Deposits	468,480	18,669	487,149
Accrued Interest payable	-	74,017	74,017
Other liabilities	922,765	455,778	1,378,543
Unearned revenue	49,782	-	49,782
Long term debts			
Due within one year	485,639	2,925,814	3,411,453
Due in more than one year	9,736,080	20,513,324	30,249,404
Total liabilities	<u>12,299,139</u>	<u>24,276,604</u>	<u>36,575,743</u>
NET POSITION			
Net investment in capital assets	39,386,621	64,482,746	103,869,367
Restricted for Debt service	485,639	2,925,814	3,411,453
Unrestricted	16,943,474	18,561,894	35,505,368
Total Net Position	<u>\$ 56,815,734</u>	<u>85,970,454</u>	<u>\$ 142,786,188</u>

The notes are an integral part of the financial statements.

City of Bonney Lake
Statement of Activities
For the Year Ended December 31, 2013

Functions/Programs	Program Revenues				Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 4,897,158	\$ 2,945,130	\$ 653,436	\$ -	(1,298,592)	\$ -	(1,298,592)
Public safety	5,869,101	547,847	-	-	(5,321,253)	-	(5,321,253)
Physical environment	14,103	-	-	-	(14,103)	-	(14,103)
Transportation	1,745,818	247,991	1,156,391	-	(341,436)	-	(341,436)
Health and human services	39,658	-	-	-	(39,658)	-	(39,658)
Economic environment	1,654,985	-	-	-	(1,654,985)	-	(1,654,985)
Culture and recreation	412,809	442,444	-	-	29,635	-	29,635
Interest on long term debt	428,514	-	-	-	(428,514)	-	(428,514)
Total governmental activities	15,062,146	4,183,413	653,436	1,156,391	(9,068,906)	-	(9,068,906)
Business-type Activities:							
Water	6,595,773	8,145,340	-	-	-	1,549,567	1,549,567
Sewer	5,040,981	5,834,015	-	436,746	-	1,229,780	1,229,780
Stormwater	1,373,492	1,690,907	-	64,419	-	381,834	381,834
Total business-type activities	13,010,246	15,670,262	-	501,165	-	3,161,180	3,161,180
Total government	\$ 28,072,392	\$ 19,853,674	\$ 653,436	\$ 1,657,555	(9,068,906)	\$ 3,161,180	\$ (5,907,726)
General Revenues:							
Taxes:							
Property taxes					2,635,753	-	2,635,753
Sales taxes					3,720,172	-	3,720,172
B&O taxes					2,820,847	-	2,820,847
Excise taxes					551	-	551
Utility and other taxes					644,574	-	644,574
Investment earnings					59,674	89,133	148,807
Miscellaneous revenues					533,146	119,270	652,416
Special item - Gain (loss) on sale of capital asset					(1,211,640)	-	(1,211,640)
Total general revenues					9,203,077	208,403	9,411,480
Change in net position					134,171	3,369,583	3,503,754
Net position-beginning					-	-	-
Prior period adjustment					56,681,563	82,400,725	139,082,288
Net position-ending					-	200,145	200,145
					56,815,734	85,970,453	142,786,187

The notes are an integral part of the financial statements.

**City of Bonney Lake
Balance Sheet
Governmental Funds
December 31, 2013**

	001	301	302	320		
	GENERAL FUND	STREET CONSTRUCTION FUND	PARK CONSTRUCTION FUND	GENERAL GOVERNMENTAL CONSTRUCTION	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash and cash equivalents	3,719,555	3,398,128	1,739,647	4,342,577	27,053	13,226,960
Receivables	1,049,979	554,637	722,315	15,535	22	2,342,489
Due from other governments	689,640	896,059	0	0	0	1,585,699
Prepaid items	980	0	0	0	0	980
Restricted assets:						
Cash	0	0	0	0	0	0
Deposits	12,200	0	0	2,125	0	14,325
Total assets	5,472,355	4,848,824	2,461,962	4,360,237	27,075	17,170,453
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	366,624	144,645	1,136	10,073	0	522,478
Contracts payable	0	69,075	0	0	0	69,075
Due to other governments	8,707	0	0	(500)	2,256	10,464
Restricted Deposits payable	466,105	0	0	2,375	0	468,480
Interfund loan payable	0	0	1,089,652	0	0	1,089,652
Unearned revenues	0	49,782	0	0	0	49,782
Other liabilities	875,347	12,207	0	22,901	0	910,455
Total liabilities	1,716,782	275,709	1,090,788	34,849	2,256	3,120,385
Fund balances:						
Restricted	12,200	0	0	0	24,819	37,019
Committed	1,325	0	200,145	0	0	201,470
Assigned	485,639	4,573,115	1,171,028	4,325,388	0	10,555,170
Unassigned	3,256,412	0	0	0	0	3,256,412
Total fund balances	3,755,576	4,573,115	1,371,173	4,325,388	24,819	14,050,071
Total liabilities and fund balances	5,472,358	4,848,824	2,461,961	4,360,237	27,075	

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

Receivables for fines and foreitures and the related allowance for uncollectable accounts are not current financial resources and therefore not reported in the funds.	834,513
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	48,718,156
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	(10,217,410)
Internal service funds are used by management to charge the costs of insurance and equipment rental and replacement 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.	3,430,406
Net position of governmental activities	56,815,736

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, 2013

	001	301	302	320		TOTAL
	GENERAL FUND	STREET CONSTRUCTION FUND	PARK CONSTRUCTION FUND	GENERAL GOVERNMENTAL CONSTRUCTION	OTHER GOVERNMENTAL FUNDS	GOVERNMENTAL FUNDS
REVENUES						
Taxes						
Property	2,635,753	0	0	0	0	2,635,753
Sales	3,720,172	0	0	0	0	3,720,172
B&O	2,820,847	0	0	0	0	2,820,847
Excise	551	0	0	0	0	551
Other	152,473	201,755	203,242	87,104	0	644,574
Licenses and permits	855,107	0	0	0	0	855,107
Intergovernmental	653,436	470,323	686,068	0	0	1,809,827
Charges for goods and services	2,063,696	247,991	442,444	0	26,409	2,780,540
Fines and forfeitures	547,847	0	0	0	0	547,847
Miscellaneous:						
Interest	13,344	16,997	8,933	20,398	2	59,674
Other	374,473	14,802	0	143,870	0	533,146
Total revenues	13,837,700	951,869	1,340,687	251,371	26,412	16,408,039
EXPENDITURES						
Current:						
General government	4,330,965	0	0	33,741	0	4,364,706
Public safety	5,270,780	0	0	0	0	5,270,780
Utilities and environment	12,665	0	0	0	0	12,665
Transportation	1,567,842	0	0	0	0	1,567,842
Economic environment	1,486,269	0	0	0	0	1,486,269
Culture and recreation	370,726	0	0	0	0	370,726
Health and human services	35,615	0	0	0	0	35,615
Capital outlay	145,743	2,645,129	1,530,045	784,149	0	5,105,065
Debt service:						
Principal retirement	285,000	0	200,145	180,224	0	665,370
Interest	98,352	0	1,337	328,825	0	428,514
Total expenditures	13,603,956	2,645,129	1,731,527	1,326,939	0	19,307,551
Excess (deficiency) of revenues over expenditures	233,744	(1,693,261)	(390,840)	(1,075,567)	26,412	(2,899,512)
OTHER FINANCING SOURCES (USES)						
Transfers in	0	0	0	33,747	8,850	42,597
Transfers Out	0	0	0	0	(60,807)	(60,807)
Sale of Land	1,090,589	200,000	0	0	0	1,290,589
Contributions from property owners	0	0	0	0	0	0
Total other financing sources and uses	1,090,589	200,000	0	33,747	(51,957)	1,272,379
Net Change in fund balances	1,324,333	(1,493,261)	(390,840)	(1,041,820)	(25,545)	(1,627,133)
Fund balances-beginning	2,431,243	6,066,376	1,762,014	5,367,208	50,364	15,677,204
Prior Period Adjustment	0	0	0	0	0	0
Fund balances-ending	3,755,576	4,573,115	1,371,174	4,325,388	24,819	14,050,071

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, 2013

Net changes in fund balances - total governmental funds \$ (1,627,133)

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	5,104,983	
Depreciation expense	<u>(1,488,044)</u>	3,616,939

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		665,370
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Proceeds from sale of land	(1,290,589)	
Gain (loss) on sale of land	<u>(1,211,640)</u>	(2,502,229)

Net of Internal Service Fund Activity		(36,985)
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Net result related to the diminution of under-utilized fund activity.		18,210
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Change in net position of governmental activities		<u>\$ 134,171</u>
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The notes are an integral part of the financial statements.

**City of Bonney Lake
Statement of Net Position
Proprietary Funds
December 31, 2013**

	Business-type Activities - Enterprise Funds			Total Proprietary Funds	Gov. Activities Internal Service Funds
	401 Water	402 Sewer	415 Stormwater		
ASSETS					
Current assets:					
Cash and cash equivalents	13,059,936	5,956,375	1,714,435	20,730,746	3,481,402
Investments	0	0	0	0	0
Receivables	27,865	110,690	18,783	157,339	0
Due from other governmental units	0	0	0	0	0
Prepaid Items	0	0	0	0	0
Deposits	2,274	0	0	2,274	0
Interfund loan receivable	0	200,145	0	200,145	0
Inventories	80,465	230,787	0	311,252	0
Restricted assets:					
Cash and cash equivalents	59,184	80,759	0	139,943	0
Total current assets:	<u>13,229,724</u>	<u>6,578,757</u>	<u>1,733,218</u>	<u>21,541,700</u>	<u>3,481,402</u>
Noncurrent assets:					
Interfund loan receivable	0	889,507	0	889,507	0
Noncurrent - deposits		2,541	0	2,541	0
Noncurrent receivable	0	0	0	0	0
Capital assets:					
Land	1,367,275	358,397	0	1,725,672	0
Construction in progress	680,158	2,375,614	86,669	3,142,440	0
Buildings	5,201,956	3,572,162	9,683	8,783,801	0
Leasehold improvements	0	19,422,000	0	19,422,000	0
Improvements other than buildings	51,054,275	5,254,840	7,819,975	64,129,090	0
Machinery and equipment	49,947	814,364	3,279	867,590	5,731,922
Intangible asset	9,244,346	15,665,032	172,223	25,081,601	0
Accumulated depreciation	(17,813,979)	(15,193,863)	(2,331,042)	(35,338,885)	(3,397,506)
Total noncurrent assets:	<u>49,783,977</u>	<u>33,160,594</u>	<u>5,760,787</u>	<u>88,705,357</u>	<u>2,334,416</u>
Total assets	<u>63,013,702</u>	<u>39,739,351</u>	<u>7,494,005</u>	<u>110,247,057</u>	<u>5,815,819</u>
LIABILITIES					
Current liabilities:					
Accounts payable	20,789	250,715	16,561	288,064	34,376
Due to other governments	0	938	0	938	0
Deposits	6,104	0	0	6,104	0
Accrued Interest Payable	29,757	44,260	0	74,017	0
Current portion of long-term debt	2,138,993	786,821	0	2,925,814	0
Other Liabilities	194,524	225,793	35,460	455,778	12,311
Total current liabilities:	<u>2,390,167</u>	<u>1,308,527</u>	<u>52,021</u>	<u>3,750,715</u>	<u>46,687</u>
Non current liabilities:					
Compensated absences	62,208	48,662	0	110,870	4,309
Revenue bonds payable	1,865,500	409,500	0	2,275,000	0
Public Works Trust Fund payable	8,589,375	7,511,062	0	16,100,437	0
Deposits - Noncurrent	0	10,269	2,295	12,565	0
Contract payable for purchase of water rights	2,027,017	0	0	2,027,017	0
Total Non current liabilities:	<u>12,544,100</u>	<u>7,979,494</u>	<u>2,295</u>	<u>20,525,889</u>	<u>4,309</u>
Total liabilities	<u>14,934,267</u>	<u>9,288,020</u>	<u>54,316</u>	<u>24,276,604</u>	<u>50,996</u>
NET POSITION					
Net investment in capital assets	35,163,092	23,561,163	5,758,491	64,482,746	2,334,416
Restricted for debt service	2,138,993	786,821	0	2,925,814	0
Restricted for replacement	0	0	0	0	0
Restricted for insurance	0	0	0	0	45,482
Unrestricted	10,777,349	6,103,347	1,681,197	18,561,893	3,384,925
Total net position	<u>48,079,434</u>	<u>30,451,330</u>	<u>7,439,689</u>	<u>85,970,454</u>	<u>5,764,823</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, 2013

	Business-type Activities - Enterprise Funds			Total Proprietary Funds	Gov. Activities Internal Service Funds
	401 Water	402 Sewer	415 Stormwater		
Operating revenues:					
Charges for goods and services	\$ 8,145,340	\$ 5,834,015	1,690,907	15,670,262	\$ 1,523,762
Total operating revenues	8,145,340	5,834,015	1,690,907	15,670,262	1,523,762
Operating expenses:					
Cost of Sales	3,232,090	2,634,044	867,757	\$ 6,733,891	599,172
Administrative	692,280	523,130	188,306	1,403,715	99,000
Insurance	-	-	-	-	412,291
Taxes	857,063	451,576	158,339	1,466,978	-
Depreciation	1,611,402	1,352,288	159,090	3,122,780	469,225
Total operating expenses	6,392,835	4,961,037	1,373,492	12,727,364	1,579,688
Operating income (loss)	1,752,505	872,977	317,415	2,942,898	(55,925)
Nonoperating revenues (expenses):					
Gain / (Loss) on retirement of assets	-	-	-	-	-
Investment earnings	56,071	26,182	6,879	89,133	14,505
Miscellaneous revenue	116,737	2,251	282	119,270	654
Grant income	-	-	117,228	117,228	-
Interest and other debt service cost	(202,939)	(79,944)	-	(282,882)	-
Total non operating revenue	(30,130)	(51,510)	124,388	42,748	15,159
Income (loss) before contributions and transfers	1,722,375	821,467	441,804	2,985,646	(40,766)
Capital contributions	-	436,746	(52,809)	383,937	24,135
Transfers in	-	-	-	-	52,809
Transfers out	-	-	-	-	-
Change in net position	1,722,375	1,258,213	388,995	3,369,583	36,177
Net position-beginning	46,357,059	28,992,972	7,050,694	82,400,725	5,728,646
Prior period adjustment	-	200,145	-	200,145	-
Net position-ending	\$ 48,079,434	\$ 30,451,330	\$ 7,439,689	85,970,453	\$ 5,764,823

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, 2013

	Business-type Activities - Enterprise Funds				Gov. Activities Internal Service Funds
	WATER	SEWER	STORM	TOTAL	
Cash flows from operating activities:					
Receipts from customers and users	\$ 8,197,884	\$ 5,813,839	\$ 1,686,770	\$ 15,698,493	\$ 1,523,782
Payments for taxes	(857,063)	(517,197)	(158,339)	(1,532,599)	-
Payments to employees	(517,315)	(326,387)	(152,846)	(996,548)	(102,132)
Payments for goods and services	(3,519,350)	(3,317,126)	(921,822)	(7,758,299)	(989,578)
Net cash provided (used) by operating activities	3,304,155	1,653,129	453,763	5,411,047	432,073
Cash flows from noncapital financing activities:					
Grants and contributions	-	436,746	66,730	503,476	-
Interfund loan payments	-	200,145	-	200,145	-
Nonoperating miscellaneous revenue	-	-	-	-	-
Net cash provided (used) by Noncapital financing	-	636,891	66,730	703,621	-
Cash flows from capital and related financing activities:					
Proceeds from capital debt	267,600	(162,103)	-	105,497	-
Debt principal payments	(1,806,831)	(852,995)	-	(2,659,826)	-
Interest paid on debt	(202,939)	(79,944)	-	(282,882)	-
Proceeds from sales of equipment or vehicles	116,737	2,251	282	119,270	654
Payment for capital acquisitions	(2,891,825)	(2,008,556)	-	(4,900,381)	(324,692)
Net cash provided (used) by capital and related financing activities	(4,517,257)	(3,101,346)	282	(7,618,322)	(324,038)
Cash flows from investing activities:					
Interest income	56,071	26,182	6,879	89,133	14,505
Other	-	-	-	-	-
Net cash provided (used) by investing activities	56,071	26,182	6,879	89,133	14,505
Net Increase (decrease) in cash and cash equivalents	(1,157,031)	(785,144)	527,653	(1,414,521)	122,540
Cash and cash equivalents, beginning of year	14,278,425	6,822,278	1,186,782	22,287,485	3,358,863
Cash and cash equivalents, end of the year	\$ 13,121,394	\$ 6,037,134	\$ 1,714,435	\$ 20,872,964	\$ 3,481,403
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 1,752,505	\$ 872,977	\$ 317,415	2,942,898	\$ (55,925)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	1,611,402	1,352,288	159,090	3,122,780	469,225
Changes in assets and liabilities:					
(Increase) decrease in customer accounts receivable	(19,622)	(20,175)	(4,137)	(43,935)	20
(Increase) decrease in prepaids	253	210	33	496	-
(Increase) decrease in inventory	-	-	-	-	-
Increase (decrease) in accounts payable	(122,380)	(683,082)	(18,611)	(824,074)	21,885
Increase (decrease) in deposits	2,274	(840)	(2,933)	(1,499)	-
Increase (decrease) in payroll payable	174,964	196,742	35,460	407,167	-
Increase (decrease) in compensated absences	2,296	630	-	2,926	(3,132)
Increase (decrease) in due to other governments	(97,536)	(65,621)	(32,560)	(195,717)	-
Net cash provided by operating activities	3,304,155	1,653,129	453,757	5,411,042	\$ 432,073

The notes are an integral part of the financial statements.

CITY OF BONNEY LAKE
Notes to the Financial Statements
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net 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, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 are reported focusing on the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City of Bonney Lake considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The City of Bonney Lake 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 considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City of Bonney Lake.

The City of Bonney Lake 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 all other general capital purposes.

The City reports the following major proprietary funds:

- 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 of Bonney Lake 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, Sewer, and Storm funds 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.

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for the general, some special revenue, and debt service funds on the modified accrual basis of accounting. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects.

Other budgets are adopted at the level of the fund, except in the general (current expense) fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level.

Appropriations for general and special revenue funds laps at year-end (except for appropriations for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned).

Encumbrances accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent 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

It is the City's policy to invest all temporary cash surpluses. At December 31, 2013, the treasurer was holding \$37,579,051 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. Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

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, 2013, \$5,442.31 of special assessments receivable were delinquent.

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

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*. All other outstanding balances between funds are reported as *due 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 6.)

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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. The reserve for inventory is equal to the ending amount of inventory to indicate that a portion of the fund balance is not available for future expenditures. A comparison to market value is not considered necessary.

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, in enterprise funds. 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 See note 5, 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. 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the City of Bonney Lake during the current fiscal year is \$711,396.

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.

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.

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

10. Long-Term Obligations

See Note 6, 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. *Restricted* – amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation.
- b. *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.
- c. *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.

13. Fund Balance Details

2013 Fund Balance Classification					
	General Fund	Street Construction Fund	Park Construction Fund	General Gov Construction	Other Governmental Funds
Nonspendable	0	0	0	0	0
Long-term portion of loans receivable					
Non-financial assets held for resale					
Restricted					
Street Construction Fund					
Park Construction Fund					
General Gov Construction Fund					
Drug Investigation Fund					24,819
Restr Cash - Infrastructure Deposits	12,000				
Engineering Deposits	200				
Future Debt Payments					
Committed					
Petty Cash	1,325				
Interfund Loan			200,145		
Capital Commitments					
Assigned		4,573,115	1,171,028	4,325,388	
Future Debt Payments					
2008 Justice Center	295,000				
Motorola 800 MHz	190,639				
Unassigned	3,256,412				
Total Fund Balance	3,755,576	4,573,115	1,371,173	4,325,388	24,819

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 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 it applies is recorded as deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The city may levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services.

Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

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 (WPDP) insures amounts over \$250,000. The WPDP 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 WPDP. The City had no custodial credit risk for deposits for the year ended 2012.

B. Investments

During 2013, 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, 2013, the City had a fair value of investment in the Local Government Investment Pool amounted to \$34,271,855.

NOTE 5 – CAPITAL ASSETS

A summary of capital assets activity for the year ended December 31, 2013 is as follows:

	Beginning Balance	Prior Period Adjustment	Increases	Decreases	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 16,204,716	\$ -	\$ 96,371	\$ (2,556,730)	\$ 13,744,357
Construction in progress	5,781,741	-	4,233,658	(2,477,827)	7,537,572
Total capital assets, not being depreciated	<u>21,986,457</u>	<u>-</u>	<u>4,330,029</u>	<u>(5,034,557)</u>	<u>21,281,929</u>
Capital assets, being depreciated:					
Buildings	11,162,834	-	871,047	-	12,033,881
Improvements other than buildings	7,767,129	-	2,244,876	-	10,012,005
Machinery and equipment	2,571,357	-	120,490	-	2,691,847
Rolling Stock	5,664,975	-	382,554	(315,606)	5,731,922
Infrastructure	17,541,221	-	-	-	17,541,221
Total capital assets being depreciated	<u>44,707,515</u>	<u>-</u>	<u>3,618,967</u>	<u>(315,606)</u>	<u>48,010,875</u>
Less accumulated depreciation for:					
Buildings	(4,083,518)	-	(470,962)	-	(4,554,480)
Improvements other than buildings	(1,730,051)	-	(404,166)	-	(2,134,217)
Machinery and equipment	(2,018,210)	-	(106,203)	-	(2,124,413)
Rolling Stock	(3,239,387)	-	(469,225)	311,106	(3,397,506)
Infrastructure	(7,857,318)	-	(506,713)	-	(8,364,032)
Total accumulated depreciation	<u>(18,928,485)</u>	<u>-</u>	<u>(1,957,269)</u>	<u>311,106</u>	<u>(20,574,648)</u>
Total capital assets, being depreciated, net	<u>25,779,030</u>	<u>-</u>	<u>1,661,697</u>	<u>(4,500)</u>	<u>27,436,227</u>
Governmental activities capital assets, net	<u>\$ 47,765,487</u>	<u>\$ -</u>	<u>\$ 5,991,726</u>	<u>\$ (5,039,057)</u>	<u>\$ 48,718,156</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 1,675,671	\$ 50,000	\$ -	\$ 1,725,671
Construction in progress	5,481,242	3,449,129	(5,787,929)	3,142,442
Total capital assets, not being depreciated	<u>7,156,913</u>	<u>3,499,129</u>	<u>(5,787,929)</u>	<u>4,868,113</u>
Capital assets, being depreciated:				
Buildings	6,156,685	2,627,116	-	8,783,801
Leasehold Improvements	19,422,000	-	-	19,422,000
Improvements other than buildings	61,003,203	3,125,887	-	64,129,090
Machinery and equipment	867,590	-	-	867,590
Intangible assets	25,046,675	34,926	-	25,081,601
Total capital assets being depreciated	<u>112,496,152</u>	<u>5,787,929</u>	<u>-</u>	<u>118,284,081</u>
Less accumulated depreciation for:				
Buildings	(1,511,595)	-	(122,375)	(1,633,970)
Leasehold Improvements	(4,612,725)	-	(485,550)	(5,098,275)
Improvements other than buildings	(14,279,370)	-	(1,344,274)	(15,623,644)
Machinery and equipment	(813,684)	-	(35,968)	(849,652)
Intangible assets	(10,998,730)	-	(1,134,613)	(12,133,343)
Total accumulated depreciation	<u>(32,216,104)</u>	<u>-</u>	<u>(3,122,780)</u>	<u>(35,338,884)</u>
Total capital assets, being depreciated, net	<u>80,280,048</u>	<u>5,787,929</u>	<u>(3,122,780)</u>	<u>82,945,197</u>
Business-type activities capital assets, net	<u>\$ 87,436,961</u>	<u>\$ 9,287,058</u>	<u>\$ (8,910,709)</u>	<u>\$ 87,813,310</u>

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

Governmental activities:	
General government	\$ 396,749
Public safety	451,909
Physical Environment	270,069
Transportation	715,267
Health & Human Services	32,155
Economic Environment	6,169
Culture & Recreation	84,951
	<hr/>
Total depreciation expense - governmental activities	<u><u>\$ 1,957,269</u></u>
Business-type activities:	
Water	\$ 1,611,402
Sewer	1,352,288
Stormwater	159,090
	<hr/>
Total depreciation expense - business type activities	<u><u>\$ 3,122,780</u></u>

At year end the City's commitments were as follows:

Governmental Activities	Spent-to- Date	Remaining Commitment
Streets Capital Projects (301)		
	\$	
Overlay Angeline Rd. S.	402,720	\$ 1,780
Transportation Comp Plan- Roadways	55,026	169,974
Church Lake Rd-Kelly Lk Rd Overlay	46,346	516,154
Angeline 111- Panorama Overlay	73,732	19,268
DT 186th Corridor St Improvements	42,078	957,922
Sumner BuckleyHwy -SR 410 to Main St.Intersection	2,707,436	4,992,564
214th Ave Intersection Imprmt	829,794	887,206
Main Street/SR 410 Intersection	2,805,434	18,566
Sidewalks-SR410-Angeline Bridge-192nd	126,344	923,656
Subtotal Street Capital Improvement Fund	7,088,910	8,487,090
Parks Capital Projects (302)		
Fenell Crk Trail / Safe Routes - Sidewalks	1,465,915	657,085
Allen York Park Improvements	-	130,000
Allen York Park- Dike#13	327,328	22,672
Allen York Park- Sport/Tennis Court	57,428	50,572
Victor Falls Park	383,756	16,244
Subtotal Parks Capital Improvement Fund	2,234,427	876,573
General Government Capital Projects (320)		
Justice& Municipal Center & Improvments	871,047	-
Civic Center	115,382	134,618
General Government Capital Projects (325)		
NONE	-	
Subtotal General Government Capital Improvement Fund	986,429	134,618
Total Governmental Funds	\$ 10,309,766	\$ 9,498,281

NOTE 6 – LONG-TERM DEBT

The City of Bonney Lake issues general obligation bonds to finance the construction of the Justice Center. Bonded indebtedness has also been entered into (currently ad in prior years) to advance/refund several general obligation and revenue bonds. General obligation bonds 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 purchasing of Motorola 800MHz radios. This note is considered obligations of the general government and are being repaid with general governmental revenue sources.

General Obligation Bonds

At December 31, 2013, the general obligation bonds payable consist of the following issues for governmental activities:

Purpose	Maturing Range	Interest Rate	Original Amount	Amount of Installment
Justice Center	25 Yrs.	3.15% - 4.0%	10,000,000	285,000

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

Year Ending	Governmental Activities	
	Principal	Interest
2013	285,000	376,100
2014	295,000	364,700
2015	305,000	352,900
2016	320,000	340,700
2017	330,000	327,900
2018 - 2032	7,150,000	2,743,175
Totals	8,685,000	4,505,475

Revenue Bonds

The revenue bond currently outstanding is as follows:

Purpose	Maturing Range	Interest Rate	Original Amount	Amount of Installment
Refund 1998 & 1999 Revenue Bonds	6 yrs.	35.% - 4.0%	4,570,000	430,000

Revenue bond debt service requirements to maturity are as follows:

Year Ending	Principal	Interest
2013	430,000	126,420
2014	445,000	109,220
2015	465,000	91,420
2016	475,000	72,820
2017	495,000	53,820
2018	415,000	34,020
2019	425,000	17,213
Totals	3,150,000	504,933

Public Works Trust Fund Loans

At December 31, 2013, the Public Works Trust Fund loans payable consist of the following:

Fund	Loan #	Description	Due in 1 Year (2014)	Due in More Than 1 Year	12/31/13 O/S Bal
401	PW-97-791-017	Ponderosa Reservoir #2 - Construction	50,468	151,404	201,872
401	PW-98-78898-07	Corrosion Control Facility	14,974	74,872	89,846
401	PW-98-78898-08	Lakeridge Booster Pump Station	37,657	188,286	225,944
401	PW-98-791-006	Ponderosa Reservoir #2 - 800 Zone Overflow Construction	14,995	59,981	74,976
401	PW-00-691-008	McGhee Water Main Replacement	38,306	229,838	268,145
401	PW-03-691-003	Spring Sources Water Quality Treatment Facilities	63,715	573,439	637,155
401	PW-04-691-008	Ball Park Well Water Quality Treatment Facility	178,676	1,786,765	1,965,441
401	PW-04-691-009	Leak Reduction Program	247,456	2,474,557	2,722,012
401	PW-05-96-791-004	Church Lake/Inlet Island Watermain Replacement	66,057	132,114	198,171
401	PW-PC-08-951-004	Leak Reduction Program Phase II	208,437	2,918,120	3,126,557
402	PW-02-691-006	Sumner Sewer Treatment Plant Upgrade	373,047	2,984,376	3,357,423
402	PW-04-691-007	Sumner Sewer Treatment Plant Upgrade	105,450	1,054,500	1,159,950
402	PW-06-962-ELP-302	Emergency Sewer Main Replacement	26,316	315,789	342,105
402	PW-PC-08-951-005	Reconstruct Trunk Sewer to Sumner WWTP	151,868	2,305,717	2,457,585
402	PC-12-951-045	Sumner /Bonney Lake Wastwater Treatment Plant Upgrade	50,040	850,679	900,719
Totals			1,627,464	16,100,437	17,727,901

Installment Contracts

At December 31, 2013, installment contracts consisted of the following:

Purpose	Maturing Date	Interest Rate	Original Amount	Amount of Installment
Motorola 800 MHz	2018	4.54%	1,938,528	180,224
City of Tacoma	2015	5.88%	5,776,598	462,128
Cascade Water Alliance	2018	0.0%	2,747,334	391,222

Installment contract debt service requirements to maturity are as follows:

Year Ending 31-Dec	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	180,224.20	48,428.31	462,127.84	17,377.27
2014	190,638.72	40,059.34	462,127.84	11,553.20
2015	199,391.96	31,306.10	462,127.84	0
2016	208,547.09	22,150.97		0
2017	218,122.59	12,575.47		0
2018	114,834.29	2,560.29		0
Totals	1,111,758.85	157,080.48	1,386,383.52	28,930.47

Interfund Loans and Advances

Within the City, one fund may borrow from another when specifically authorized by a City Council resolution. The activity and balances of the interfund loan at December 31, 2013 is as follows:

Lending Fund	Borrowing Fund	Balance at 1/1/2013	Additions	Reductions	Balance at 12/31/13
Sewer Fund	Park CIP	1,289,798		(200,145)	1,089,653

Interfund contract debt service requirements to maturity are as follows:

Year Ending	Principal	Interest
2013	200,145	1,337
2014	200,145	23,954
2015	200,145	12,269
Totals	600,436	37,560

NOTE 7 – CHANGE in LONG-TERM LIABILITIES

During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

Governmental Activities Description	Beginning Bal. 1/1/2013	Additions	Reductions	Ending Balance, 12/31/2013
2007 G.O. Debt-Justice Center	8,685,000		285,000	8,400,000
Motorola 800 MHz Equipment	1,111,759		180,224	931,535
OPEB Payable	54,131	17,190	0	71,321
Compensated Absences	833,051	52,824	0	885,875
Total Governmental Activities	10,683,941	70,014	465,224	10,288,731
Business Type Activities				
Public Works Trust Fund Loans:				
PW 97-791-017 Ponderosa Const	252,340		50,468	201,872
PW 98-78898-07 Corrosion Control	104,820		14,974	89,846
PW 98-78898-08 Lakeridge Pmp Sta.	263,601		37,657	225,944
PW 98-791-006 Ponderosa Overflow	89,972		14,996	74,976
PW 00-691-008 McGhee Drive Water	306,451		38,306	268,145
PW 03-691-003 Spring Source H2O	700,870		63,715	637,155
PW 04-691-008 Ballpark Well treatmnt	2,144,118		178,676	1,965,442
PW 04-691-009 Leak Reduction Pgm	2,969,468		247,455	2,722,013
PW 5-96-791-004 Church Lake Main	264,228		66,057	198,171
PC 08-951-004 Leak Reduction II	3,138,752	267,600	279,797	3,126,555
PW 02-691-006 Sumner Trt Plnt	3,730,470		373,047	3,357,423
PW 04-691-007 Sewer Trt Plnt Upgde	1,265,400		105,450	1,159,950
PW 06-962-ELP-302 Reconst Sewr to	368,421		26,316	342,105
PC 08-951-005 Reconstruct Swr line	3,827,125		1,369,540	2,457,585
PC 12-951-045 Waste Water Treatment Plnt	442,454	489,852	31,587	900,719
Sutotoal Trust Fund Loans	19,868,490	757,452	2,898,042	17,727,899
2007 Water/Sewer Refunding Bonds	3,150,000		430,000	2,720,000
City of Tacoma Syst Dev Chgs	1,386,383		462,128	924,255
Cascade Water Alliance	2,347,334		391,222	1,956,112
Compensated Absences	111,077	4,103	0	115,180
Subtotal Other Debt	6,994,794	4,103	1,283,350	5,715,547
Total Business Type Activities	26,863,284	761,555	4,181,392	23,443,446

NOTE 8 – 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	27,685

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 9 – 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 2013, 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, 2013 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, 2013, 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, 2013.

The City was required to contribute \$31,461 (Annual Required Contribution, or ARC), but only contributed \$11,568 at December 31, 2013. 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 \$964 per month, or \$11,568 per year, for retiree-only coverage. This differs from the Annual Required Contribution (ARC) because the plan is financed on a pay-as-you-go basis. The difference between the OPEB Costs and the required contribution is called the Net OPEB Obligation (NOO).

	Fiscal Year Ending 12/31/2013
Determination of Required Annual Contribution	
Normal Cost	
Amortization of Unfunded Actuarial Accrued Liability (UAAL)	31,461
Annual Required Contribution (ARC)	31,461
Determination of Net OPEB Obligation	
Annual Required Contribution (ARC)	31,461
Interest on Net OPEB Obligation	2,165
Net OPEB Obligation Amortization	(4,869)
Annual OPEB Cost	28,758
Contributions Made	(11,568)
Increase in Net OPEB Obligation	17,190
NET OPEB OBLIGATION - January 1, 2013	54,131
NET OPEB OBLIGATION - December 31, 2013	71,321

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

Year	Annual OPEB Cost	Employer Contribution	% of OPEB Contribution	Net OPEB Obligation
2013	28,758	11,568	40.2%	72,321
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, 2013, the plan was 0% funded. The accrued liability for benefits was \$349,795 and the actuarial valuation of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$349,795.

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, 2012 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 2012. 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 10 INTERFUND TRANSFERS

Pursuant to new legislation, the City transferred \$88,590 from REET 2 to the General Fund. This amount was budgeted in the General Fund as a result of Legislative changes that allow REET to be used in a more broad fashion.

Interfund transfers at December 31, 2013 were as follows:

BARS	Account	From	Amount	To	Amount	BARS
208.000.000.288.20.00.00	Undesignated Fund Balance	208	(27,059.59)	126	27,059.59	126.000.000.288.20.00.00
233.000.000.288.20.00.00	Undesignated Fund Balance	233	8,849.64	301	(8,849.64)	301.000.000.288.250.00.00
325.000.000.111.00.00.00	Equity in Pooled Cash	325	(33,747.02)	320	33,747.02	320.000.000.111.00.00.00

NOTE 11 – PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of \$200,145 is reflected in the Sewer Fund. This adjustment reflects an understatement of receivables. In the prior year, the City reported a payment to the Sewer Fund that was not received, understating the receivable. That adjustment is also reflected in the Statement of Activities (Business-type).

NOTE 12 – 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

Prior to 2013, the City has been reporting its receivables at full value. Subsequent to the 2013 balance sheet date, the City adopted an A/R write off policy. The City has since written down its receivables by approximately 65% from what was reported at December 31, 2013. A schedule of receivable balances as of 5/1/14 is detailed below.

Account	2013	2014	Variance	% of Change
001.000.000.121.10.00.00 TAXES RECEIVABLE	19,935	19,935	0	
001.000.000.121.30.00.00 TAXES RECEIVABLE-DELINQUENT	147,395	146,483	(913)	
001.000.000.122.10.00.00 ACCOUNTS RECEIVABLE	741,591	154,271	(587,320)	
001.000.000.122.10.10.00 ACCOUNTS RECEIVABLE - WORKING	55,847	0	(55,847)	
001.000.000.122.90.00.00 ALLOWANCE FOR DOUBTFUL ACCOUNTS	(12,812)	(3,040)	9,772	
510.000.000.122.10.00.00 ACCOUNTS RECEIVABLE	98,024	64,232	(33,791)	
301.000.000.121.10.00.00 TAXES RECEIVABLE	51,782	0	(51,782)	
301.000.000.122.10.00.00 ACCOUNTS RECEIVABLE	395,075	394,875	(200)	
301.000.000.122.10.10.00 ACCOUNTS RECEIVABLE - WORKING	101,357	0	(101,357)	
301.000.000.123.10.00.00 Special Assessment Receivable - Current	6,409	6,409	0	
301.000.000.123.50.00.00 Interest Receivable on Assessments	15	15	0	
302.000.000.121.10.00.00 TAXES RECEIVABLE	36,247	0	(36,247)	
302.000.000.122.10.00.00 ACCOUNTS RECEIVABLE	(84,350)	0	84,350	
302.000.000.122.10.10.00 ACCOUNTS RECEIVABLE - WORKING	770,418	0	(770,418)	
320.000.000.121.10.00.00 TAXES RECEIVABLE	15,535	0	(15,535)	
120.000.000.122.10.00.00 ACCOUNTS RECEIVABLE	22	0	(22)	
Total	2,342,489	783,180	(1,559,309)	-66.6%

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, 2013

	Budget Amounts		Actual Biennium Through 12/31/2013	Variance with Final Budget Over (Under)
	Approved Original Budget 2013-2014 Biennium	Approved Revised Budget 2013-2014 Biennium		
REVENUES				
Taxes				
Property	\$ 5,300,454	\$ 5,393,645	\$ 2,635,753	\$ (2,757,892)
Sales	7,806,252	7,629,072	3,720,172	(3,908,900)
Business & Occupation	2,570,261	5,206,909	2,820,847	(2,386,062)
Other	2,805,443	345,975	153,024	(192,951)
Licenses and permits	1,439,911	1,439,911	855,107	(584,804)
Intergovernmental	1,389,855	1,389,855	653,436	(736,419)
Charges for services	4,084,288	4,084,288	2,063,696	(2,020,592)
Fines and forfeitures	1,480,992	1,372,096	547,847	(824,249)
Miscellaneous				
Interest Earnings	107,628	107,628	13,344	(94,284)
Other	758,759	1,430,179	374,473	(1,055,706)
Total revenues	27,743,843	28,399,558	13,837,699	(14,561,859)
EXPENDITURES				
Current:				
General Government	7,439,447	8,034,807	4,330,965	(3,703,842)
Public safety	11,695,047	11,695,046	5,270,780	(6,424,266)
Utilities and environment	151,242	151,242	12,665	(138,577)
Transportation	2,088,161	2,088,162	1,567,842	(520,320)
Economic environment	4,183,658	4,219,175	1,486,269	(2,732,906)
Culture and recreation	612,837	650,030	370,726	(279,304)
Health and human services	-	4,000	35,615	31,615
Debt Service	1,338,443	1,338,443	383,352	(955,091)
Capital Outlay	103,000	218,653	145,743	(72,910)
Total expenditures	27,611,835	28,399,558	13,603,957	(14,795,601)
Excess (deficiency) of revenues over expenditures	132,008	-	233,742	233,742
OTHER FINANCING SOURCES (USES)				
Disposition of Capital Assets	-	-	1,090,589	1,090,589
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	1,090,589	-
Net change in fund balances	132,008	-	1,324,331	1,324,331
FUND BALANCES, BEGINNING	2,431,243	2,431,243	2,431,243	-
PRIOR PERIOD ADJUSTMENTS	-	-	-	-
FUND BALANCES, ENDING	\$ 2,563,251	\$ 2,431,243	\$ 3,755,574	\$ 1,324,331

The notes are an integral part of the financial statements.

CITY OF BONNEY LAKE
Required Supplementary Information
For the Year ended December 31, 2013
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	#DIV/0!
12/31/2010	0	235,963	235,963	0%	0	#DIV/0!
12/31/2011	0	244,302	244,302	0%	0	#DIV/0!
12/31/2012	0	254,531	254,531	0%	0	#DIV/0!
12/31/2013	0	349,795	349,795	0%	0	#DIV/0!

Schedule of Employer Contributions
for LEOFF 1 Retiree Medical Benefits

Fiscal Year Ending	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	11,568	23,700	48.8%
12/31/2013	11,568	31,461	36.8%

MCAG #0567

City of Bonney Lake

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Year Ending December 31, 2013

FEDERAL

GRANTOR/ FEDERAL PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	EXPENDITURES		TOTAL	NOTE REFERENCE
			PASS-THROUGH AWARDS	DIRECT AWARDS		
DIRECT/ INDIRECT	NUMBER					
U.S. DEPT. OF JUSTICE:						
Pierce County						
Edward Byrne Memorial Formula Grant Program (DEA)	16.579	-	21,808	-	21,808	
Edward Byrne Memorial Justice Assistance Grant (TNET)	16.738		20,004	-	20,004	
Bulletproof Vest Partnership Program	16.607			2,195	2,195	
TOTAL U.S. DEPT. OF JUSTICE			41,812	-	44,007	
U.S. DEPT. OF TRANSPORTATION:						
WA State, Dept of Transportation						
Highway Planning and Construction	20.205	SRTS-PB-3161(002)	678,338		678,338	
WA State, Traffic Safety Commission						
State and Community Highway Safety	20.600	NHTSA/WIDAC 2011-12	1,330		1,330	
State and Community Highway Safety	20.600	WTSC 2012-13	6,135		6,135	
Child Safety & Child Booster Seats Incentive Grant	20.613	K313-01/03	134,550		134,550	
Alcohol Impaired Driving Countermeasures Incentive Grants I/DUII Emphasis	20.601	WTSC 2012-13	4,157		4,157	
WA Association of Sheriffs & Police Chiefs						
State and Community Highway Safety	20.600	WASPC 01611	1,409		1,409	
TOTAL U.S. DEPT. OF TRANSPORTATION			825,919	-	825,919	
WA State, Parks and Recreation Commission						
Boating Safety Financial Assistance Program	97.012	LE911-421	9,531		9,531	
TOTAL FEDERAL ASSISTANCE			\$ 877,262	\$ 2,195	\$ 879,457	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

City of Bonney Lake
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013

NOTE 1 BASIS OF ACCOUNTING

Basis of accounting - The schedule of expenditures of federal awards is prepared on the same basis of accounting as the City's financial statements.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

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