

Washington State Auditor's Office
Financial Statements Audit Report

City of Anacortes
Skagit County

Audit Period
January 1, 2009 through December 31, 2009

Report No. 1004492

Issue Date
November 1, 2010



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

November 1, 2010

Mayor and City Council
City of Anacortes
Anacortes, Washington

Report on Financial Statements

Please find attached our report on the City of Anacortes' financial statements.

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Skagit County
January 1, 2009 through December 31, 2009**

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Status of Prior Audit Findings

City of Anacortes Skagit County January 1, 2009 through December 31, 2009

The status of findings contained in the prior years' audit reports of the City of Anacortes is provided below:

- 1. The City did not have adequate internal controls over financial statement preparation to ensure accurate accounting and financial reporting.**

Report No. 1002814, dated January 19, 2010

Background

The City's internal controls over financial reporting were not appropriately designed to ensure its financial statements and notes were accurate and complete and meet applicable accounting standards. As a result, capital asset balances were incorrectly adjusted and restricted assets were not accurately classified.

Status

The City has partially corrected the internal control weaknesses noted in this finding. The City has significantly improved its financial statement preparation and review processes; however, our audit still identified a number of immaterial errors in the financial statements and a group of transactions that were incorrectly reported as restricted. These misstatements were not material.

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

City of Anacortes
Skagit County
January 1, 2009 through December 31, 2009

Mayor and City Council
City of Anacortes
Anacortes, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Anacortes, Skagit County, Washington, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 5, 2010.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

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

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 5, 2010

Independent Auditor's Report on Financial Statements

**City of Anacortes
Skagit County
January 1, 2009 through December 31, 2009**

Mayor and City Council
City of Anacortes
Anacortes, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Anacortes, Skagit County, Washington, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed on page 6. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Anacortes, as of December 31, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 7 through 14, budgetary comparison on page 50, pension trust fund on page 51 and information on postemployment benefits other than pensions on page 52 are not a required part of the basic financial statements but are

supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 5, 2010

Financial Section

**City of Anacortes
Skagit County
January 1, 2009 through December 31, 2009**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2009

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2009
Statement of Activities – 2009
Balance Sheet – Governmental Funds – 2009
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental
Funds – 2009
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REQUIRED SUPPLEMENTAL INFORMATION

Budgetary Comparison Schedule – 2009
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LEOFF 1 Retiree Medical Benefits Information – 2009

CITY OF ANACORTES

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

Our discussion and analysis of the City of Anacortes' financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2009. Please read it in conjunction with the City's financial statements which follow.

FINANCIAL HIGHLIGHTS

- Net assets, the amount by which total assets exceed total liabilities, equal \$175,760,874. A total of 82% or \$144,380,672 of total net assets net of related debt is invested in capital such as infrastructure, land and buildings. Of the remaining net assets, 15%, or \$26,130,625 of total net assets is available to meet the government's ongoing activities and obligations, and 3%, or \$5,249,577, is restricted for debt service and capital projects.
- The City of Anacortes' net assets increased by \$1,170,153 in 2009.
- Governmental fund balances at year-end were \$13,004,606, a \$1,540,289 decrease from the prior year. Of this amount, \$11,169,837, or 86%, of the governmental fund balance is unreserved and available to fund ongoing activities with \$1,513,150 earmarked for debt services, and \$321,618 for capital projects.
- The unreserved fund balance in the General Fund is \$7,879,004, a \$130,431 decrease from the prior year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets — the difference between assets and liabilities — as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. In 2009 the City's net assets increased \$1,170,153. By this benchmark the city is better off as a result of the year's activities.

Additionally, you will need to consider other non-financial factors, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

Governmental activities — Most of the City's basic services are reported here, including the police, fire, code enforcement, museum departments, and general administration. Property taxes, sales taxes, utility taxes and transfers finance most of these activities.

Business-type activities — The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water system, sewer system, storm drain system, and garbage-collection system are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds — not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes and grants. The City's two kinds of funds — *governmental and proprietary* — use different accounting approaches.

- **Governmental funds** — Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements.
- **Proprietary funds** — When the City charges customers for the services it provides — whether to outside customers or to other units of the City — these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide services for the City's other programs and activities — such as the City's Equipment Maintenance Fund.

The City as Trustee

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or *fiduciary*, for its fire employees, hired prior to March 1970, pension plan. It is also responsible for other assets that because of a trust arrangement can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE CITY AS A WHOLE

STATEMENT OF NET ASSETS

The following table reflects the condensed Statement of Net Assets

Table 1
Statement of Net Assets

	Government Activities 2009	Business- type Activities 2009	Total for 2009	Government Activities 2008	Business- type Activities 2008	Total for 2008	% of Increase (Decrease) from Prior Year Total
Assets							
Capital Assets	81,266,166	84,324,157	165,590,324	80,404,148	81,543,752	161,947,900	
Other Assets	18,189,523	16,340,158	34,529,681	19,201,669	18,903,901	38,105,570	
Total Assets	99,455,689	100,664,315	200,120,005	99,605,817	100,447,653	200,053,470	0.03%
Liabilities							
Other Liabilities	2,478,672	2,352,398	4,831,070	2,222,896	2,413,732	4,636,628	
Long-term Liabilities	6,158,663	13,395,322	19,553,985	6,140,559	14,685,562	20,826,120	
Total Liabilities	8,637,335	15,747,720	24,385,055	8,363,454	17,099,294	25,462,748	-4.23%
Net Assets							
Restricted	1,834,768	3,242,975	5,077,743	2,228,410	5,595,674	7,824,084	
Unrestricted	14,200,478	12,105,586	26,306,064	15,639,241	12,385,965	28,025,206	
Invested in Capital net of debt	74,783,108	69,568,035	144,351,143	73,374,711	65,366,721	138,741,432	
Total Net Assets	90,818,354	84,916,596	175,734,950	91,242,362	83,348,360	174,590,722	0.66%

The largest component of the City's net assets, 82% or \$144,351,143, is its investment in capital assets less any related outstanding debt issued to acquire those assets. These capital assets such as streets, buildings, land, waterlines, sewer and storm drain lines and the two treatment plants are used to provide services to the citizens and businesses of the City.

Net assets invested in capital net of debt for the City's governmental activities increased in 2009 due to the completion of utility system projects. These capital assets will be depreciated over their useful lives.

CHANGES IN NET ASSETS

The following schedule shows the revenues and expenses for the current year.

Table 2
Changes in Net Assets

	Government Activities 2009	Business- type Activities 2009	Total for 2009	Government Activities 2008	Business- type Activities 2008	Total for 2008	% of Increase (Decrease) from Prior Year Total
Revenues							
Property Taxes	4,474,095		4,474,095	4,437,454		4,437,454	0.83%
Sales Taxes	3,087,314		3,087,314	3,874,454		3,874,454	-20.32%
Utility Taxes	3,020,420		3,020,420	2,778,436		2,778,436	8.71%
All Other General Revenues	5,545,804		5,545,804	5,347,960		5,347,960	3.70%
Water		9,207,817	9,207,817		9,559,081	9,559,081	-3.67%
Sewer		4,493,177	4,493,177		4,353,861	4,353,861	3.20%
Storm		1,606,305	1,606,305		2,183,515	2,183,515	-26.43%
Solid Waste		2,099,941	2,099,941		1,503,853	1,503,853	39.64%
Total Revenues	16,127,632	17,407,240	33,534,872	16,438,304	17,600,310	34,038,614	-1.48%
Expenses:							
Judicial	279,169		279,169	258,310		258,310	8.08%
General Government	2,126,573		2,126,573	2,114,461		2,114,461	0.57%
Public Safety	7,460,238		7,460,238	6,893,029		6,893,029	8.23%
Physical Environment	643,226		643,226	518,768		518,768	23.99%
Transportation	1,418,301		1,418,301	1,346,407		1,346,407	5.34%
Human Services	15,010		15,010	12,389		12,389	21.16%
Economic Environment	1,293,637		1,293,637	1,673,244		1,673,244	-22.69%
Health	621,420		621,420	20,490		20,490	2932.76%
Culture & Recreation	2,765,152		2,765,152	3,477,786		3,477,786	-20.49%
Interest on long-term debt	285,573		285,573	348,679		348,679	-18.10%
Water		6,788,612	6,788,612		6,523,713	6,523,713	4.06%
Waste Water		4,995,296	4,995,296		4,305,787	4,305,787	16.01%
Solid Waste		1,189,248	1,189,248		1,908,405	1,908,405	-37.68%
Storm Drain		1,850,169	1,850,169		931,853	931,853	98.55%
Total Expenses	16,908,300	14,823,325	31,731,625	16,663,564	13,669,757	30,333,321	4.61%
Transfers:	356,658	(356,658)	0	0	0	0	
Change in Net Assets:	(424,009)	2,227,256	1,803,247	(225,260)	3,930,553	3,705,293	
Net Assets - Beginning	91,242,362	83,348,360	174,590,722	92,775,309	78,498,874	171,274,183	
Prior Period Adjustment		(659,020)	(659,020)	(1,307,687)	918,933	(388,754)	
Net Assets - Ending	90,818,353	84,916,596	175,734,949	91,242,362	83,348,360	174,590,722	0.66%

THE CITY'S FUNDS

Overall, including restatements, the city had an increase in total net assets of \$1,144,227. Of this, governmental activities had a decrease in net assets of \$424,009 from the prior year, and business type activities had an increase in net assets of \$1,568,236.

The purpose of the City's **Governmental Funds** is to report on near term revenues/financial resources and expenditures. This information helps determine the City's financial requirements in the near future. In particular, fund balance is a good indicator of the City's resources available at the end of the year.

Governmental activities had a decrease in net assets of \$398,083; overall the city had a total increase in net assets of \$1,170,153. Key elements of the governmental activities are:

- Charges for service revenue decreased \$422,813, or 17.4%.
- Utility tax revenue increased \$241,984, or 8.7%.
- Sales tax revenue decreased \$787,140, or 20.3%.
- Investment earnings decreased \$263,949, or 49.2%.
- At year end, the General fund, as presented in the balance sheet, reported a fund balance of \$7,879,004 which is a decrease of \$130,431, due primarily to the significant decrease in sales tax revenues.
- The Ambulance Service Fund revenues decreased \$50,561, or 2.9%.
- At year end, the Ambulance Service fund, as presented in the balance sheet, reported a fund balance of \$247,307, which is a decrease of \$271,182, due primarily to decreased sales tax revenues.
- The Arterial Street Construction Fund expenditures increased \$1,473,735, or 196%.
- At year end, the Arterial Street Construction Fund, as presented in the balance sheet, reported a fund balance of \$107,761, which is a decrease of \$541,404. This was because of the increased activity in the fund to complete the Commercial Avenue Roundabout project.

Business-Type Activities contributed \$1,568,236 of the total change in net assets of \$1,170,153. Key elements of the business type activities are:

- Water fund net assets increased \$1,558,127, or 4%. , due primarily to strong capital contributions from the utility's contractual customers.
- Sewer fund net assets decreased \$502,120, or 1.7%, primarily due to increased depreciation expense. As the Sewer treatment plant and related infrastructure ages, the repairs and replacements contribute capital assets to the utility.
- Storm fund net assets increased by \$337,458, or 2.8%. There was increased activity in both revenues and expenditures due to the Flounder Bay dredging project.
- Sanitation fund net assets increased by \$174,722, or 5.7%. Both revenues and expenditures remained relatively constant from the prior year.

General Fund Budgetary Highlights

The original General Fund budget was \$11,642,353, and over the course of the year was amended by \$38,068, for a final budget of \$11,680,421. The \$38,068 increase was to add budgetary authority for voter registration costs to the Skagit County Auditor. This amendment was not material to the General Fund, but was executed to ensure the council was aware of the expenditure.

Total actual expenditures out of the General Fund were \$8,317,083, as reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances. This is \$3,363,338 under budget, however the majority of the under run, \$2,490,380, is due to the City's double budgeting affect from interfund activity. Net budget under run when interfund activity is included is \$872,957, which is largely due to employee health insurance actual costs under running the amount budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Anacortes's investment in capital assets for its governmental and business-type activities, net of accumulated depreciation was \$165,590,325. This investment in capital assets includes land, buildings and improvements, infrastructure, machinery and equipment and construction in progress. The City has elected to exclude art and historical treasures. The total increase in the City's investment in capital assets for the current year was \$3,642,427.

Table 3
Capital Assets at Year-End
(Net of Depreciation)

	Government Activities 2008	Business-type Activities 2008	Total for 2008	Government Activities 2009	Business- type Activities 2009	Total for 2009	% of Increase (Decrease) from Prior Year Total
Land	48,379,827	1,629,643	50,009,470	48,646,307	1,363,163	50,009,470	0.00%
Buildings	11,012,799	6,955,393	17,968,192	10,720,077	6,712,131	17,432,208	-2.98%
Infrastructure & Improvements Other than Buildings	17,445,744	65,817,528	83,263,272	19,074,742	69,983,339	89,058,081	6.96%
Machinery and Equipment	2,573,782	2,728,814	5,302,596	2,335,856	2,022,758	4,358,614	-17.80%
Construction in Progress	991,995	4,412,373	5,404,368	489,186	4,242,766	4,731,952	-12.44%
	80,404,147	81,543,752	161,947,898	81,266,168	84,324,157	165,590,325	2.25%

As per the Statement of Activities, Internal Service Funds net capital assets are included in the Governmental Activities capital assets.

More information on the City of Anacortes' capital assets can be found in Note 6 of this report.

Debt

In 2009 the City issued \$1,965,000 of refunding bonds to defease \$2,005,000 of General Obligation bonds.

At year-end, the City had \$21,389,957 in bonds and loans outstanding versus \$23,206,468 last year, a decrease of \$1,816,511, due to scheduled debt service.

Table 4
Outstanding Debt at Year-End
General Obligation and Revenue Bonds and Loans

	Government Activities 2009	Business-type Activities 2009	Government Activities 2008	Business-type Activities 2008	% Change from Prior Year Total
General obligation bonds and loans	6,483,058		7,029,437		-7.77%
Revenue bonds and loans		14,906,898		16,177,031	-7.85%
total	21,389,957		23,206,468		

The City of Anacortes is authorized to issue debt pursuant to the Acts of the State of Washington; with voter approval, the city can issue debt up to 2.5 percent of the assessed valuation. Without a vote, the City can incur debt up to an amount equal to 1.5 percent of the assessed valuation of taxable property within the City. The combination of unlimited tax and limited tax general obligation debt for all purposes cannot exceed 7.5 percent.

More information on the City of Anacortes' debt can be found in Note 10 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2009 budget, property tax rates and the fees that will be charged the citizens of the community for government and business-type activities. The state of the economy for the region, state and nation were also taken into consideration. The growth of the City was a factor weighed, as well as the attraction of our community as a place to live.

The economic down turn that was first noted in 2008 continued to decline in 2009. In spite of this, the General Fund retains a very strong fund balance of \$7,879,004, which well exceeds the City's goal of adequate fund reserves. Based on these and other considerations, the City of Anacortes is cautiously optimistic about City's future economic health, while taking a very conservative view on budget growth during this time of a slow economy.

The City's overall financial position has remained strong as compared to the prior year. The City is not facing any foreseeable restrictions or other limitations that would significantly impact funding resources for future uses.

One of the reasons the City has maintained its overall financial position is due to the conservative approach that is taken in regards to budget growth and increases to personnel. The City believes that the construction related revenues and sales tax collections enjoyed earlier in the decade will likely reset at a lower level once the economy recovers.

One significant commitment that the City has undertaken is the new water treatment plant. Design of the project will complete in 2010, and construction is anticipated to begin in 2011. The Water utility will see a significant increase in debt service requirements as a result of revenue bond financing of this project.

Water utility rates are being evaluated in 2010, and will likely be adjusted in 2011 to accommodate the increased fiscal requirement.

The State of Washington, by constitution, does not have a state personal income tax and therefore the state operates primarily using property, sales, business and occupation, and gasoline taxes. The City of Anacortes primarily relies on property, sales and utility taxes to fund governmental activities.

For business-type and certain governmental activities (e.g. permitting and recreation) the user pays a fee or charge associated with the service provided. No fees were increased in 2009.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Office, 904 6th Street, P.O. Box 547, Anacortes, WA, 98221.

CITY OF ANACORTES
STATEMENT OF NET ASSETS
December 31, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
<i>Current Assets</i>			
Cash and cash equivalents	\$ 10,811,632	\$ 6,661,813	\$ 17,473,445
Investments	5,138,207	4,587,980	9,726,187
Receivables (net)	348,100	1,129,862	1,477,962
Internal balances	(213,184)	213,184	-
Due from other governments	270,000		270,000
Inventory		385,196	385,196
<i>Noncurrent Assets</i>			
Restricted assets:			
Capital	321,618	2,731,689	3,053,307
Bond covenant accounts	1,513,150	511,286	2,024,436
Deferred charges & other assets			
Deferred charges	-	78,800	78,800
Other		40,348	40,348
<i>Capital Assets</i>			
Land	48,646,307	1,363,163	50,009,470
Depreciable assets (net)	32,130,674	78,718,229	110,848,903
Construction in progress	489,186	4,242,766	4,731,951
Total Assets	99,455,689	100,664,316	200,120,005
LIABILITIES			
<i>Current Liabilities</i>			
Accounts payable	740,458	800,380	1,540,838
Unearned revenue	378,584		378,584
Other Current liabilities	823,251	220,747	1,043,998
<i>Noncurrent Liabilities</i>			
Due within one year	536,378	1,331,272	1,867,650
Net pension obligation	571,983		571,983
Due in more than a year	5,586,680	13,395,322	18,982,002
Total Liabilities	8,637,336	15,747,720	24,385,055
NET ASSETS			
Invested in capital assets, net of related debt	74,783,108	69,568,035	144,351,143
Restricted for:			
Debt service	1,513,150	511,286	2,024,436
Capital projects	321,618	2,731,689	3,053,307
Unrestricted	14,200,478	12,105,586	26,306,064
Total Net Assets	\$ 90,818,354	\$ 84,916,596	\$ 175,734,950

The accompanying notes are an integral part of this statement

CITY OF ANACORTES
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2009

Functions/Program	Program Revenues			Net (Expense) Revenue & Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Judicial	\$ 279,169	\$ 184,940	\$ 5,431	-	\$ (88,798)	\$ -	\$ (88,798)
General government	2,126,573	1,019,470	35,564	-	(1,071,539)	-	(1,071,539)
Public Safety	7,460,237	573,808	722,016	-	(6,164,413)	-	(6,164,413)
Physical environment	643,226	60,223	-	-	(583,002)	-	(583,002)
Transportation	1,418,301	80,601	15	573,322	(764,363)	-	(764,363)
Human services	15,010	-	140,115	-	125,105	-	125,105
Economic Environment	1,293,637	398,373	-	-	(895,264)	-	(895,264)
Health	621,420	-	683	-	(620,736)	-	(620,736)
Culture & Recreation	2,765,152	109,014	37,970	-	(2,618,168)	-	(2,618,168)
Interest on long-term debt	285,573	-	-	-	(285,573)	-	(285,573)
Total governmental activities	16,908,299	2,426,429	941,795	573,322	(12,966,753)	-	(12,966,753)
Business-type activities:							
Water	6,788,612	4,517,708	-	4,538,162	-	2,267,258	2,267,258
Sewer	4,995,296	3,859,763	-	546,881	-	(588,653)	(588,653)
Storm Drainage	1,189,248	1,242,506	75,000	345,610	-	473,868	473,868
Sanitation	1,850,169	1,978,233	-	-	-	128,064	128,064
Total business-type activities	14,823,325	11,598,211	75,000	5,430,653	-	2,280,538	2,280,538
Total government	\$ 31,731,624	\$ 14,024,640	\$ 1,016,795	\$ 6,003,975	\$ (12,966,753)	\$ 2,280,538	\$ (10,686,215)
General revenues:							
Property taxes					4,474,095	-	4,474,095
Sales taxes					3,087,314	-	3,087,314
Utility taxes					3,020,420	-	3,020,420
Other taxes					1,132,162	-	1,132,162
Unrestricted grants & contributions					114,500	-	114,500
Investments earnings					272,485	302,147	574,632
Disposition of capital assets					85,112	1,228	86,340
Transfers, internal activities					356,658	(356,658)	-
Total general revenues and transfers					12,542,744	(53,263)	12,489,462
Change in net assets					(424,009)	2,227,256	1,803,247
Net assets-beginning					91,242,362	83,348,360	174,590,722
Prior period adjustment					(659,020)	(659,020)	(659,020)
Net assets-ending					\$ 90,818,353	\$ 84,916,596	\$ 175,734,949

The accompanying notes are an integral part of this statement

CITY OF ANACORTES
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2009

	General Fund	Arterial Street Construction Fund	Ambulance Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 5,382,942	\$ 329,318	109,097	2,476,042	\$ 8,297,399
Investments	2,629,140	160,846	53,285	1,066,933	3,910,204
Receivables (net)	204,600		102,174	15,099	321,872
Bond covenant accounts				1,513,150	1,513,150
Total Assets	\$ 8,216,682	\$ 490,163	264,556	5,071,223	\$ 14,042,625
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 152,966	\$ 382,402	17,249	87,702	\$ 640,320
Payable other governments	35,417			(197)	35,220
Due to other funds				213,184	213,184
Deferred revenues	149,295				149,295
Total Liabilities	337,679	382,402	17,249	300,689	1,038,019
Fund Balances:					
Reserved for:					
Debt service				1,513,150	1,513,150
Capital projects				321,618	321,618
Unreserved, reported in:					
General fund	7,879,004				7,879,004
Special revenue funds		107,761	247,307	2,531,237	2,886,305
Capital project funds				404,529	404,529
Total Fund Balances	7,879,004	107,761	247,307	4,770,534	13,004,606
Total Liabilities and Fund Balances	\$ 8,216,682	\$ 490,163	264,556	5,071,223	\$ 14,042,625
Total Fund Balance for Governmental Funds					\$ 13,004,606
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds					78,962,281
The focus of governmental funds is on short-term financing; long-term assets are deferred in the funds					270,000
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds					(7,726,705)
Internal service funds are used by management to charge the costs of certain activities to individual funds.					
Those assets and liabilities are included in governmental activities in the statement of net assets					6,308,173
Net assets of governmental activities					<u>\$ 90,818,355</u>

The accompanying notes are an integral part of this statement

CITY OF ANACORTES
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2009

	General Fund	Arterial Street Construction Fund	Ambulance Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property	\$ 929,826	193,825	114,176	\$ 3,236,268	\$ 4,474,095
Sales	2,540,069		317,924	229,320	3,087,314
Utility	2,979,709			-	2,979,709
Other	183,411			482,707	666,118
Licenses and permits	490,382			6,020	496,402
Intergovernmental	274,920	573,322	719,132	541,286	2,108,660
Charge for services	435,709		560,809	361,209	1,357,727
Fines and forfeitures	184,940			8,329	193,269
Investment income	132,501			80,015	212,517
Other revenue	35,186			330,847	366,033
Total Revenues	<u>8,186,652</u>	<u>767,147</u>	<u>1,712,041</u>	<u>5,276,001</u>	<u>15,941,842</u>
EXPENDITURES					
Current:					
Judicial	275,055				275,055
General government	1,976,337			-	1,976,337
Public safety	4,795,399		1,979,295	2,968	6,777,662
Physical environment	163,469	102,212		286,476	552,158
Transportation				1,108,820	1,108,820
Health & Human Services	36,409				36,409
Economic environment	664,872				664,872
Culture and recreation	371,850			2,164,423	2,536,273
Capital outlay	33,692	2,121,300	3,929	1,054,468	3,213,388
Debt service:					
Principal				506,378	506,378
Interest and debt issue costs				299,586	299,586
Total Expenditures	<u>8,317,083</u>	<u>2,223,512</u>	<u>1,983,224</u>	<u>5,423,119</u>	<u>17,946,938</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(130,431)</u>	<u>(1,456,365)</u>	<u>(271,182)</u>	<u>(147,118)</u>	<u>(2,005,096)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in		881,658		245,000	1,126,658
Transfers out				(770,000)	(770,000)
Refunding debt proceeds				2,089,365	2,089,365
Use of refunding debt proceeds				(2,053,763)	(2,053,763)
Disposition of capital assets		33,303		39,245	72,547
Total other financing sources (uses)	<u>-</u>	<u>914,961</u>	<u>-</u>	<u>(450,153)</u>	<u>464,807</u>
Net change in fund balances	<u>(130,431)</u>	<u>(541,404)</u>	<u>(271,182)</u>	<u>(597,272)</u>	<u>(1,540,289)</u>
Fund Balances - January 1	<u>8,009,435</u>	<u>649,165</u>	<u>518,489</u>	<u>5,367,806</u>	<u>14,544,895</u>
Fund Balances - December 31	<u>\$ 7,879,004</u>	<u>\$ 107,761</u>	<u>\$ 247,307</u>	<u>\$ 4,770,534</u>	<u>\$ 13,004,606</u>
Net changes in fund balances for governmental funds					\$ (1,540,289)
Amounts reported for governmental activities in the statement of activities are different because:					
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives:					
Capital outlays					2,449,665.00
Depreciation					(1,467,572)
The issuance of long-term debt (e.g., bonds, leases) is a resource and the repayment of bond principal is an expenditure in governmental funds, but those transactions increase or reduce long-term liabilities in the statement of net assets:					
Debt Proceeds Net Refunding					(35,602)
Debt Retired					506,378
Some revenues reported in the statement of activities are not yet available and, therefore, are not reported as revenues in the governmental funds.					
					40,711
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.					
					(569,556)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue and internal balances of these activities is reported with governmental activities					
					192,256
Change in net assets of governmental activities					<u>\$ (424,009)</u>

The accompanying notes are an integral part of this statement

CITY OF ANACORTES
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2009

	Water	Sewer	Storm Drain	Sanitation	Total Enterprise Funds	Governmental Activities Internal Service Funds
ASSETS						
Current assets:						
Cash and cash equivalents	782,360	3,013,196	847,957	2,018,299	6,661,813	2,730,313
Investments	1,716,334	1,471,707	414,160	985,779	4,587,980	1,333,541
Receivable (net)	622,996	447,907	147,025	125,117	1,343,046	26,228
Inventory	385,196				385,196	
Noncurrent assets:						
Restricted cash and investments						
Capital reserve	2,731,689				2,731,689	
Bond covenant accounts		511,286			511,286	
Deferred charges & other assets						
Deferred charges		78,800			78,800	
Other		40,348			40,348	
Capital Assets						
Land	317,860	787,598	257,705		1,363,163	3,516
Depreciable assets (net)	43,489,660	24,618,426	10,550,685	59,457	78,718,229	2,300,370
Construction in progress	2,715,761	1,374,053	80,787	72,164	4,242,766	
Total assets	52,761,858	32,343,323	12,298,319	3,260,817	\$ 100,664,316	6,393,968
LIABILITIES						
Current liabilities:						
Accounts payable	554,543	137,058	44,162	34,224	769,987	64,797
Payable to other governments	205	683		(25)	863	121
Matured interest payable		29,529			29,529	
Compensated absences	74,881	91,910	28,154	25,801	220,747	20,876
Bonds, notes, loans payable	615,000	716,272			1,331,272	
Noncurrent liabilities:						
Bonds, notes, loans payable	10,880,000	2,695,627			13,575,627	
Other noncurrent liabilities	48,721	(229,026)			(180,305)	
Total liabilities	12,173,350	3,442,053	72,316	60,000	15,747,720	85,795
NET ASSETS						
Investment in capital assets, net of related debt	34,979,560	23,567,677	10,889,177	131,621	69,568,035	2,303,886
Restricted for debt service		511,286			511,286	
Restricted for capital reserve	2,731,689				2,731,689	
Unrestricted	2,877,258	4,822,307	1,336,826	3,069,195	12,105,586	4,004,287
Total net assets	40,588,507	28,901,269	12,226,002	3,200,817	84,916,596	6,308,173

The accompanying notes are an integral part of this statement

CITY OF ANACORTES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended December 31, 2009

	Water	Sewer	Storm Drain	Sanitation	Totals	Governmental Activities Internal Service Funds
Operating revenues:						
Charges for utility services	4,517,708	3,859,763	1,242,506	1,978,233	11,598,211	
Charges for other services						1,419,228
Total operating revenue	<u>4,517,708</u>	<u>3,859,763</u>	<u>1,242,506</u>	<u>1,978,233</u>	<u>11,598,211</u>	<u>1,419,228</u>
Operating expenses:						
Maintenance and operations	4,101,743	2,468,602	840,941	1,732,652	9,143,938	761,421
Administrative and general	968,071	388,143	56,695	109,258	1,522,167	80,708
Depreciation	1,209,629	1,882,270	291,611	8,258	3,391,768	457,375
Total operating expenses	<u>6,279,443</u>	<u>4,739,014</u>	<u>1,189,248</u>	<u>1,850,169</u>	<u>14,057,873</u>	<u>1,299,504</u>
Operating income (loss)	<u>(1,761,734)</u>	<u>(879,251)</u>	<u>53,258</u>	<u>128,064</u>	<u>(2,459,662)</u>	<u>119,724</u>
Nonoperating revenues (expenses):						
Intergovernmental revenue	-	-	75,000		75,000	-
Investment earnings	151,931	85,571	18,189	46,457	302,147	59,968
Interest expense	(491,353)	(186,011)	-		(677,364)	
Debt issuance costs	(17,816)	(70,272)	-		(88,088)	
Gain (loss) on sale of capital assets	16	962	-	251	1,228	12,564
Miscellaneous revenues (expenses)	-	-	-		-	
Total nonoperating revenue (expense)	<u>(357,222)</u>	<u>(169,750)</u>	<u>93,189</u>	<u>46,707</u>	<u>(387,076)</u>	<u>72,532</u>
Income (loss) before contributions and transfers	(2,118,956)	(1,049,001)	146,447	174,772	(2,846,739)	192,256
Capital contributions	4,538,162	546,881	345,610	-	5,430,653	-
Transfers in	-	-	-	-	-	-
Transfers out	(202,059)	-	(154,599)	-	(356,658)	-
Change in net assets	2,217,147	(502,120)	337,458	174,772	2,227,256	192,256
Total net assets - beginning	<u>39,030,381</u>	<u>29,403,390</u>	<u>11,888,545</u>	<u>3,026,045</u>	<u>83,348,361</u>	<u>6,115,917</u>
Prior Period Adjustment	(659,020)				(659,020)	
Total net assets - ending	<u>40,588,508</u>	<u>28,901,270</u>	<u>12,226,003</u>	<u>3,200,817</u>	<u>84,916,597</u>	<u>6,308,173</u>

The accompanying notes are an integral part of this statement

City of Anacortes
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2009

	Business-Type Activities					Governmental Activities
	Water Fund	Sewer Fund	Sanitation Fund	Storm	Totals	Internal Service Fund
Cash flows from operating activities						
Cash received from customers	\$ 3,632,465	\$ 3,872,729	\$ 1,985,897	\$ 1,115,689	\$ 10,606,780	\$ 22,482
Cash operating grants received from other governments	-	-	-	-	-	-
Cash paid for goods and services	(1,995,968)	(937,826)	(1,000,249)	(328,524)	(4,262,567)	(585,964)
Cash paid to employees	(1,944,822)	(1,603,069)	(484,275)	(429,325)	(4,461,490)	(282,172)
Cash received for quasi-external operating transactions	-	-	-	-	-	1,397,676
Cash paid for quasi-external operating transactions	(635,351)	(256,939)	(378,003)	(80,173)	(1,350,466)	(58,784)
Cash paid for taxes	(348,511)	(76,615)	(28,942)	(23,651)	(477,719)	(211)
Other cash received	-	-	-	-	-	-
Other cash paid	-	-	-	-	-	-
Net cash provided by operating activities	(1,292,186)	998,280	94,427	254,017	54,539	493,027
Cash flows from noncapital financing activities						
Interfund loan repayments & interest	-	54,562	-	-	54,562	-
Operating subsidies and transfers fo other funds	-	-	-	-	-	-
Net cash provided by noncapital financing	-	54,562	-	-	54,562	-
Cash flows from capital and related financing activities						
Other receipts for capital construction	4,538,162	546,881	-	345,610	5,430,653	-
Proceeds from sale of capital assets	16	962	251	-	1,229	12,564
Payments for capital acquisitions	(4,757,147)	(1,509,080)	(52,544)	(299,964)	(6,618,736)	(220,862)
Interest paid	(526,063)	(186,011)	-	-	(712,073)	-
Bond Issuance Costs	-	-	-	-	-	-
Principal payments on bonds/notes	(585,000)	(685,133)	-	-	(1,270,133)	-
Transfers net	(202,059)	-	-	(154,599)	(356,658)	-
Principal payments on intergovernmental loans	-	-	-	-	-	-
Net cash used for capital and related financing activities	(1,532,091)	(1,832,382)	(52,293)	(108,953)	(3,525,718)	(208,298)
Cash flows from investing activities:						
Receipts of interest and dividends	151,931	85,571	46,457	18,189	302,148	59,968
Net cash provided by investing activities	151,931	85,571	46,457	18,189	302,148	59,968
Net increase (decrease) in cash	(2,672,346)	(693,968)	88,591	163,253	(3,114,470)	344,697
Cash at beginning of year	7,902,729	5,178,872	2,915,488	1,098,864	17,095,953	3,719,157
Cash at end of year	\$5,230,383	\$4,484,904	\$3,004,079	\$1,262,117	\$13,981,483	\$4,063,854

City of Anacortes
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2009

	Business-Type Activities					Governmental Activities
	Water Fund	Sewer Fund	Sanitation Fund	Storm	Totals	Internal Service Fund
Reconciliation of operating income to net cash provided by operating activities						
Net operating income (loss)	\$ (2,420,755)	\$ (879,250)	\$ 128,064	\$ 53,258	\$ (3,118,683)	\$ 119,724
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation/Amortization	1,209,629	1,882,270	8,258	291,611	3,391,768	457,375
Allowance for uncollectible accounts	-	-	-	-	-	-
Change in assets and liabilities:						
(Increase) decrease in accounts receivable	(226,223)	151	7,664	(126,817)	(345,224)	930
(Increase) decrease in deposits receivable	-	-	-	-	-	-
(Increase) decrease in due to/from other government:	(377)	(280)	(76)	-	(733)	13
(Increase) decrease in inventory	(11,717)	-	-	-	(11,717)	-
Increase (decrease) in accounts payable	156,468	(18,100)	(49,643)	35,754	124,478	(85,041)
Increase (decrease) in benefits payable	789	674	160	212	1,835	26
Non-operating income reported as operating	-	-	-	-	-	-
Non-operating expense reported as operating	-	-	-	-	-	-
Other	-	12,816	-	-	12,816	-
Total adjustments	1,128,569	1,877,530	(33,637)	200,759	3,173,222	373,303
Net cash provided by operating activities	\$ (1,292,186)	\$ 998,280	\$ 94,427	\$ 254,017	\$ 54,539	\$ 493,027
Non-cash investing, capital and financing activities:						
Developers contributed infrastructure valued at:	299,174	546,880		345,610		
Amortization of bond discounts:	5,732	76,718				

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

CITY OF ANACORTES
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
December 31, 2009

	Pension Trust Fund	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash and cash equivalents	155,114	962,759	111,325
Investments	75,761	1,479,857	
Receivables:			
Interest		8,839	
Total Assets	230,874	2,451,455	111,325
LIABILITIES			
Liabilities:			
Accounts payable and accrued expenses	-	8,513	107,432
Refunds payable	-	-	3,893
Other liabilities	-	-	-
Total Liabilities	-	8,513	111,325
NET ASSETS (Restated)			
Pension benefits	230,874		
Investment trust participants		2,442,943	
	230,874	2,442,943	

The accompanying notes are an integral part of this statement

CITY OF ANACORTES
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended December 31, 2009

	Pension Trust Fund	Private Purpose Trust Funds
ADDITIONS		
Contributions:		
Taxes	14,963	
Grants and donations	18,301	49,463
Other		1,652
Total contributions	33,264	51,115
Investment earnings		
Interest and dividends	3,768	38,190
Total investment income	3,768	38,190
Total Additions	37,031	89,305
DEDUCTIONS		
Benefits	37,434	
Administrative expenses	-	21,954
Total deductions	37,434	21,954
Change in net assets	(402)	67,351
Net assets - beginning	231,276	2,375,591
Net assets - ending	230,874	2,442,942

The accompanying notes are an integral part of this statement

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Anacortes 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.

REPORTING ENTITY

The City of Anacortes was incorporated on May 19, 1891 and operates under the laws of the State of Washington applicable to a non-charter code city with a Mayor-Council form of government. As required by generally accepted accounting principles, the financial statements present the City of Anacortes. There are no component units nor does the City participate in any joint ventures.

The City is a general purpose government and provides police, fire, ambulance, building inspection, animal control, general administration, water (supply, treatment, & distribution), sewage (collection & treatment), sanitation, street maintenance, planning and zoning, judicial administration, library, museum, park and recreation, and cemetery services.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary 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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is not to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

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

However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental funds:

General Fund

This 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.

Arterial Street Construction Fund

This fund accounts for funding and expenditures for new road and trail construction, and significant road improvement projects, other than typical road maintenance.

Ambulance Service Fund

This fund accounts for all funding and expenditures for the ambulance portion of the fire department.

Proprietary Funds

The City reports the following major enterprise funds: Water, Sewer, Storm Drain, and Sanitation. These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

Additionally the city reports the following fund types:

Special Revenue Funds

These funds account for revenues derived from specific taxes, grants, or other sources which are designated to finance particular activities of the City.

Debt Service Funds

These funds account for the accumulation of resources to pay principal, interest and related costs on general long-term bonded debt.

Capital Projects Funds

These funds account for financial resources, which are designated for the acquisition or construction of general government capital improvements.

Internal Service Funds

An Internal service fund accounts for operations that provide goods or services to other departments or funds of the City or to other governmental units on a cost-reimbursement basis.

Fiduciary Funds

Investment trust funds earn revenue and make expenditures on behalf of the parties for which a trust was established. The entire income and principal (or corpus) of an investment trust may be disbursed in the course of its operations.

The pension trust fund is used to account for the operations of a trust established for employee retirement benefits.

The private-purpose trust funds earn revenue on behalf of the parties for which the trust was established, but the principal (or corpus) of the trust must remain intact.

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

Agency Funds

Agency funds are used to account for situations where the city's role is purely custodial, for the receipt, temporary investment, and remittance of resources to another entity.

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements.

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 utility funds are charges to customers. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

BUDGETS AND BUDGETARY ACCOUNTING

Scope of Budget

Annual appropriated budgets are adopted for the general, special revenue, general obligation debt service, and capital projects funds and for all proprietary funds on the modified accrual basis of accounting. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers for all budgeted funds.

Annual appropriated budgets are adopted at the level of the fund, constituting the legal authority for expenditures at that level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class. Appropriations for all funds lapse at year-end.

Amending the Budget

The mayor is 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 the City 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 ordinance approved by one more than the majority after holding a public meeting.

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.

ASSETS, LIABILITIES AND EQUITIES

Cash and Equivalents

It is the City's policy to invest all temporary cash surpluses. At December 31, 2009, the treasurer was holding \$23,079,780.75 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash in various funds. The interest on these investments is prorated to various funds.

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash equivalents. Only restricted investment accounts are classified as investments.

Temporary Investments

See Note 4.

Receivables

- Taxes receivable consists of property taxes and related interest and penalties (See Property Tax Note 5). 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 consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2009 no special assessments receivable were delinquent.

- Customer accounts receivable consists 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 good and services rendered.

Amounts Due to and from Other Funds; Interfund Loans and Advances Receivable

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the 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."

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

Inventories

Inventories in enterprise funds are valued by the weighted average method which approximates the market value. Inventory checks are completed weekly by choosing 20 random parts and counting them.

Restricted Assets and Liabilities

These accounts contain resources for debt service in enterprise funds. Specific debt service reserve requirements are described in Note 10. The current portion of liabilities payable from restricted assets are shown as Matured Bonds Payable and Matured Interest Payable.

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

Cash and Investments – Debt Service	\$511,286
Cash and Investments – Construction	\$3,225,141

Capital Assets and Depreciation (See Note 6)

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 columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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.

Property, plant, and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

Buildings:	20-50 years
Other Improvements:	
Water/Sewer Lines	30-50 years
Other Structures & Fixtures	15-50 years
Equipment:	
Vehicles & Heavy Equipment	5-20 years
Office & Computing Equipment	3-10 years
Other Equipment	5-35 years

Other Property and Investments

See Note 4.

Custodial Accounts

Amounts held in trust reflect the liability for net monetary assets being held by the City in its trustee or agency capacity.

Compensated Absences

Compensated absences (accrued employee benefits) are absences for which employees will be paid, such as vacation and sick leave. The City records all accumulated unused vacation leave hours. Vacation leave accumulates from 12 to 25.5 days annually (and may be accumulated up to a maximum of 30 days) depending on tenure and is payable upon resignation, retirement, or death. Sick leave accumulates at 12 days annually until a maximum of 180 days is reached. For management employees, unused sick leave is paid out only upon retirement, paid at 0, 18 or 25 percent of their balance based on the amount of unused hours they have banked. Commissioned police employees may receive a cash buy out in an amount equal to 50% of their then existing sick leave accrual balance up to a maximum of 500 hours. IAFF fire employees may receive a percentage of their sick leave at retirement; this percentage is based on fitness evaluations in which they can earn up to 3% per year. Also at retirement, teamster union employees receive 0, 18 or 25 percent of their balance based on the amount of unused hours they have banked.

Long-term Debt

See Note 10.

Deferred Revenues

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

Fund Reserves and Designations

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

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS**

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

DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

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

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 4- DEPOSITS AND INVESTMENTS

It is the policy of the City of Anacortes to invest public funds in a manner which will maximize investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds. Cash is and can be invested by fund and commingled in a common investment portfolio. Municipal corporations are empowered by statute to invest eligible investments enabled by legislation contained in RCW 39.59.020, 35.39.030, 35.39.030, 43.84.080, 43.250.040. The city's investments are reported on the statement of net assets and the governmental funds balance sheet as cash and cash equivalents. Investments in Local Government Investment that are in restricted accounts are reported as investments.

The City's deposits and certificates are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC). The FDIC insures the City's deposits up to \$100,000; the WPDPC insures amounts over \$100,000. Deposits covered by WPDPC are insured and classified as risk Category 1.

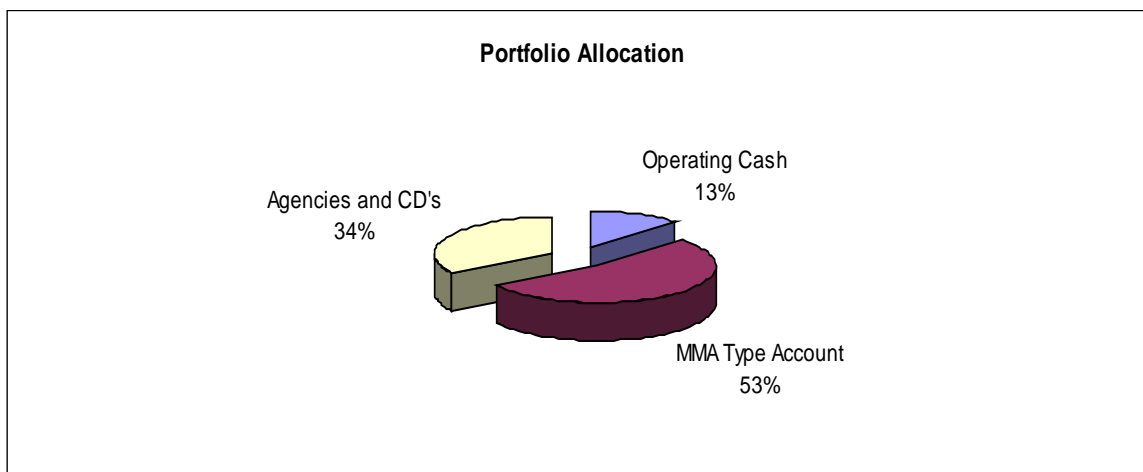
RCW 43.250.040 authorizes the City to invest in the Local Government Investment Pool which is a 2a-7 like pool. The LGIP is comparable to rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk.

Custodial credit risk is the risk, that in the event of the failure of the counterparty, the city will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. In order to limit this risk, all securities are delivered to a third party, DA Davidson, commonly known as third party safekeeping

INVESTMENT	MATURITIES	CALL	FAIR VALUE
CASH IN BANK	1	NONE	\$ 4,465,803.56
LGIP #060	LESS THAN 1 YEAR	NONE	17,780,620.50
LGIP #061	LESS THAN 1 YEAR	NONE	511,285.98
LGIP #062	LESS THAN 1 YEAR	NONE	322,070.71

FORESTLAND ENDOWMENT FUND PORTFOLIO					
CUSSIP	AGENCY	MATURITY	CALL	FAIR VALUE	DURATION
9128228HU7	US TREASURY	3/31/2010	NONE	\$501,933.59	0.61
3128X6Y59	FHLMC	8/12/2010	NONE	253,629.00	.78
31331GDG1	FFCB	10/14/2010	NONE	254,062.50	.25
TOTAL FORESTLAND ENDOWMENT FUND				\$1,009,625.09	

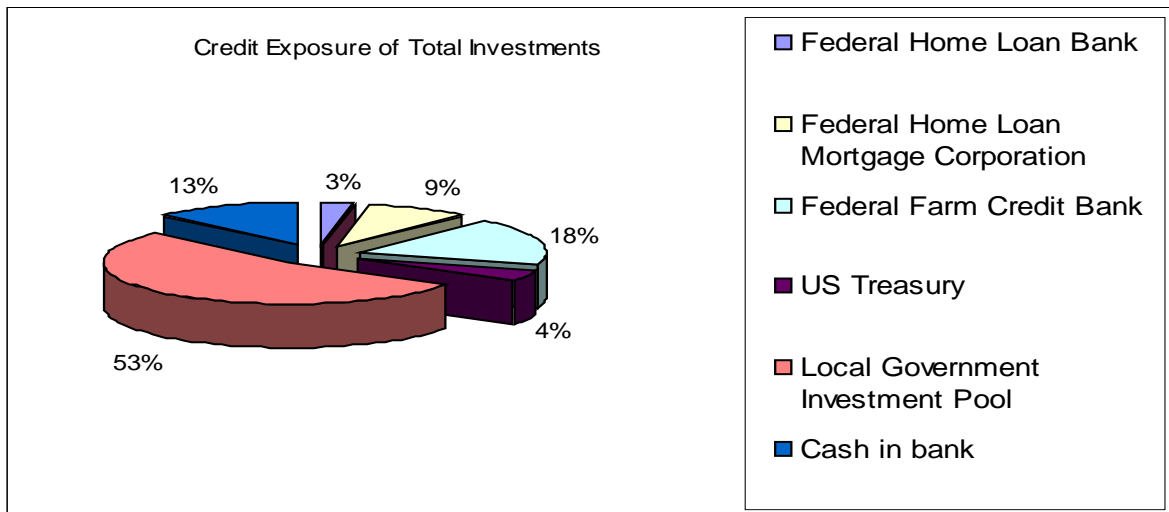
TREASURER'S TRUST PORTFOLIO					
CUSSIP	AGENCY	MATURITY	CALL	FAIR VALUE	DURATION
9128228HU7	US TREASURY	3/31/2010	NONE	\$1,003,867.17	.25
3128X6Y59	FHLMC	8/12/2010	NONE	760,887.00	.61
31331GDG1	FFCB	10/14/2010	NONE	2,032,500.00	.78
3128X8JD5	FHLMC	2/17/2011	2/17/10	2,002,916.00	1.11
31331YY46	FFCB	6/20/2011	NONE	2,085,000.00	1.44
3133XUUY7	FHLB	9/28/2011	ANYTIME AFTER 12/28/09	995,315.50	1.71
31331GP50	FFCB	12/15/2011	3/15/2010	1,983,750.00	1.93
TOTAL				\$10,864,235.67	



With Credit Exposure as a Percentage of Total Investment

<u>Investment Type</u>	<u>Standard and Poor's Rating</u>	<u>Percentage of Portfolio</u>
Federal Home Loan Bank	AAA	3%
Federal National Mortgage Association	AAA	0%
Federal Home Loan Mortgage Corporation	AAA	9%
Federal Farm Credit Bank	AAA	18%
US Treasury	AAA	4%
Local Government Investment Pool	Not Rated	53%
Cash in bank	Not Rated	13%

Cash in Bank	\$	4,465,803.56
Washington State LGIP		18,613,977.19
Agencies, Treasuries and Certificates of Deposit		<u>11,873,857.76</u>
Total	\$	34,953,638.51



NOTE 5 - PROPERTY TAXES

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

Property Tax Calendar

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

Property taxes are recorded as a receivable and deferred revenue when levied. Property tax revenues are recognized when cash is collected. The amount of taxes receivable at year-end that would be collected soon enough to pay liabilities of the current period is immaterial. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. The City may levy up to \$3.375 per \$1,000 of assessed valuation for general governmental services.

The City's regular levy for 2009 was \$1.3594 per \$1,000 on an assessed valuation of \$3,024,858,417 for a total regular levy of \$4,111,993.

Special levies approved by the voters are not subject to the limitations listed above. In 2000 the voters approved a Library Bond of \$6,050,000. The levy rate for 2009 was \$0.1578 per \$1,000 on an assessed valuation of \$2,983,634,631 for a total special levy of \$470,818.

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

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

	Restated Balance 1/1/2009	Increases	Decreases	Balance 12/31/2009
Governmental Activities				
<u>Assets not being depreciated</u>				
Land	48,379,827	266,480	-	48,646,307
Construction in Progress	991,995	101,366	604,175	489,186
Total not being depreciated	<u>49,371,822</u>	<u>367,845</u>	<u>604,175</u>	<u>49,135,492</u>
<u>Depreciated Assets</u>				
Buildings & Structures	14,196,213	-	7,676	14,188,537
Improvements & Infrastructure	26,141,425	3,650,498	1,009,478	28,782,445
Machinery & Equipment	7,786,331	248,558	354,852	7,680,037
Total being depreciated	<u>48,123,969</u>	<u>3,899,056</u>	<u>1,372,006</u>	<u>50,651,018</u>
<u>Less accumulated depreciation for:</u>				
Buildings & Structures	3,183,414	292,723	7,676	3,468,460
Improvements & Infrastructure	8,695,681	1,145,741	133,719	9,707,703
Machinery & Equipment	5,212,549	486,484	354,852	5,344,181
Total accumulated depreciation	<u>17,091,643</u>	<u>1,924,948</u>	<u>496,247</u>	<u>18,520,344</u>
Total assets being depreciated, net	<u>31,032,326</u>	<u>1,974,108</u>	<u>875,760</u>	<u>32,130,674</u>
Governmental activities assets, net	<u>80,404,148</u>	<u>2,341,954</u>	<u>1,479,935</u>	<u>81,266,166</u>
	Balance 1/1/2009	Increases	Decreases	Balance 12/31/2009
Business-Type Activities				
<u>Assets not being depreciated</u>				
Land	1,629,643	-	266,480	1,363,163
Construction in Progress	4,412,373	2,670,237	2,839,845	4,242,766
Total not being depreciated	<u>6,042,016</u>	<u>2,670,237</u>	<u>3,106,325</u>	<u>5,605,929</u>
<u>Depreciated Assets</u>				
Buildings & Structures	10,809,367	-	9,458	10,799,908
Improvements & Infrastructure	90,387,824	6,608,260	33,806	96,962,278
Machinery & Equipment	16,124,058	-	953,913	15,170,145
Total being depreciated	<u>117,321,249</u>	<u>6,608,260</u>	<u>997,178</u>	<u>122,932,331</u>
<u>Less accumulated depreciation for:</u>				
Buildings & Structures	3,853,973	243,262	9,458	4,087,777
Improvements & Infrastructure	24,570,296	2,442,449	33,806	26,978,939
Machinery & Equipment	13,395,244	706,112	953,969	13,147,387
Total being depreciated	<u>41,819,512</u>	<u>3,391,823</u>	<u>997,233</u>	<u>44,214,103</u>
Total assets being depreciated, net	<u>75,501,736</u>	<u>3,216,437</u>	<u>(55)</u>	<u>78,718,228</u>
Business-Type activities assets, net	<u>81,543,752</u>	<u>5,886,674</u>	<u>3,106,270</u>	<u>84,324,157</u>

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION (Continued)

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

Governmental Activities	
Judicial	\$ 2,661
General Government	122,496
Public Safety	297,553
Buildings & Facilities	92,505
Transportation	201,073
Economic Environment	421,667
Culture & Recreation	<u>786,993</u>
 Total Depreciation - Governmental Activities	 <u><u>\$ 1,924,948</u></u>

Business Type Activities	
Utilities	<u>\$ 3,391,823</u>
 Total Depreciation - Business-Type Activities	 <u><u>\$ 3,391,823</u></u>

Accumulated depreciation on propriety fund assets at December 31, 2009 is as follows:

	Enterprise Funds	Internal Service Funds	Totals
Buildings & Structures	\$ 4,087,777	326,070	4,413,847
Improvements & Infrastructure	26,978,939	50,520	27,029,459
Machinery & Equipment	<u>13,147,387</u>	<u>4,525,747</u>	<u>17,673,134</u>
 Total	 <u><u>\$ 44,214,103</u></u>	 <u><u>\$ 4,902,337</u></u>	 <u><u>\$ 49,116,440</u></u>

NOTE 7 - PENSION PLANS

Substantially all City full time and qualifying part time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: the Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380 or at <http://drs.wa.gov/administration/DRSInformation/reportsanddata.htm>. The following disclosures are made pursuant to GASB Statement 27, Accounting for Pensions by State and Local Government Employers and GASB Statement 50, an amendment to Statement 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 combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local government. 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 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 contribution. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is two percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. 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 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.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service 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 deduction 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 average final compensation per year of service. (The average final compensation 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 the 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.

Judicial Benefit Multiplier

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

Members who choose 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 do 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 choose to become PERS members on or after January 1, 2007, or who have 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.

There are 1,190 participating employers in PERS Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2007:

Retirees and beneficiaries receiving benefits:	71,244
Terminated plan members entitled to but not yet receiving benefits:	26,583
Active plan members vested:	105,447
Active plan members non-vested:	52,575
Total:	255,849

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the legislature. 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 the 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, 2008, were as follows:

Members not participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	8.31%**	8.31%**	8.31%***
Employee	6.00%****	5.45%****	*****

- *The employer rates include the employer administrative expense fee currently set at 0.16%
- **The employer rate for state elected officials is 12.39% for Plan 1 and 8.31% 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 5.45% 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:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	10.81%	10.81%	10.81%**
Employer-Local Govt.*	8.31%	8.31%	8.31%
Employee-State Agency	9.76%	11.13%	7.50%***
Employee-Local Govt.	12.26%	13.63%	7.50%***

- *The employer rates include the employer administrative expense fee currently set at 0.16%.
- **Plan 3 defined benefit portion only.
- ***Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2009	\$21,732	\$381,671	\$94,052
2008	\$33,882	\$370,153	\$94,225
2007	\$28,987	\$283,879	\$61,980
2006	\$15,692	\$154,322	\$31,941
2005	\$12,081	\$ 91,057	\$16,482
2004	\$10,424	\$ 64,566	\$ 9,300
2003	\$10,660	\$ 63,014	\$ 5,446

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, fire fighters and as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF is comprised primarily of non-state employees, with the 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 benefits are financed from a combination of investment earnings, employee and employer contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

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

Term of Service	Percent of Final Average
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 10 years of service. A cost-of-living allowance is granted (based on the Seattle Consumer Price Index).

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

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

Retirees and beneficiaries receiving benefits:	9,085
Terminated plan members entitled to but not yet receiving benefits:	633
Active plan members vested:	12,904
Active plan members non-vested:	3,708
Total:	26,330

Funding Policy

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

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2008 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.46%**
Employee	0.00%	8.83%
State	N/A	3.53%

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

**The employer rate for ports and universities is 8.99%.

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

	LEOFF Plan I	LEOFF Plan II
2009	\$361	\$196,743
2008	\$399	\$189,080
2007	\$512	\$163,193
2006	\$597	\$143,644
2005	\$518	\$106,605
2004	\$562	\$ 89,285
2003	\$595	\$ 78,905

Other State Retirement Systems – Volunteer Fire Fighters' Relief and Pension Fund

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

Local Governments Pension Trust Funds

The City is the administrator of a single employer defined benefit pension retirement system called Firemen's Pension Retirement System. The City is in compliance with the requirements of the Revised Code of Washington (RCW) 41.20, 41.18, and 41.16.

This system is a closed system in that membership is limited to firemen employed prior to March 1, 1970. The City's liability under the system is composed of all benefits for firemen retired prior to March 1, 1970

and partial benefits for certain firemen retired after March 1, 1970, who are mainly covered by LEOFF. Generally benefits under the LEOFF retirement benefit systems are greater than or equal to the retirement benefits under the prior system when payment begins. However, LEOFF retirement benefits increase with the CPI (Seattle) while some City benefits increase with wages of current active members. If wages go up faster than the CPI, the City becomes liable for this residual amount. As of December 31, 2009 there were a total of 8 individuals covered by this system. One individual is drawing full benefits and two are receiving partial benefits from this system to supplement their benefits provided by the LEOFF system. Five retirees are entitled to partial retirement benefits should the benefits under this system ever exceed the benefits provided them by the LEOFF system. None of the members of this system remain in active employment.

The most recent actuarial study of the system was done by the firm of Milliman & Robertson, Inc. As of January 1, 2007 future excess pension benefits to be provided by the City is \$827,000. Income is derived from fire insurance premium taxes and interest earnings on temporary surplus cash investments. Additional funding, recognized as operating transfers, is provided by the General Fund as necessary. As of December 31, 2006, the last valuation date, the fund was 28% funded.

The City is authorized to impose special property tax levies up to \$0.45 per \$1,000 of assessed valuation for the system. No special levies have been imposed, nor are there any plans to enact any special levies for the system. There is sufficient funding with current reserves and property tax revenue to cover anticipated obligations.

The City's annual pension cost and net pension obligation to the Firemen's Pension Fund for 2009 were as follows:

Annual Required Contribution (ARC)	
Amortization of Unamortized Actuarial Liability:	\$45,261
Annual Required Contribution:	\$45,261
Employer Contributions Made:	\$33,263
Net Change in Net Pension Obligation:	\$11,586
Net Pension Obligation beginning of year:	\$15,467
Net Pension Obligation end of year:	\$27,053

The annual required contribution for the current year was determined as part of the January 1, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 6% investment rate of return in 2005 and 2006 and a 5% rate in 2007 (net of administrative expenses), and (b) projected salary increases of 4% per year (for future inflation increases only.) Certain postretirement benefits increase at the same rate as the salaries for active members of the same rank the retiree had attained at retirement. These salaries were assumed to increase at the rate of 4% per year. Other benefits increase at the same rate as the Consumer Price Index for Urban Wage Earners and Clerical Workers, Seattle-Everett, Washington increases. The CPI was assumed to increase at the rate of 2.8% per year. All assets are carried on a market value. The unfunded actuarial accrued liability is being amortized based on a 30-year level-dollar closed period at December 31, 2006.

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Trend information is presented as Required Supplementary Information following the Notes to Financial Statements.

NOTE 8 RISK MANAGEMENT

<u>Insurer</u>	<u>Type of Coverage</u>	<u>Deductible</u>
American States Economy Insurance	Property Insurance Co-Insured Maintenance Facility	\$2,500
American States Insurance Company	Commercial Property	\$5,000
American States Insurance Company	Inland Marine Equipment & Workboats-Contractor's Equipment	\$250
American States Insurance Company	Equipment Floater - Police Communication Equipment	\$250
American States Insurance Company	Commercial Automobile	\$1,000 comprehensive \$1,000 collision
Superior Underwriters	Docks & Piers	\$25,000
National Fire Insurance	Tidelands & Easement Liability	\$1,000
American States Insurance	Fidelity Bond Commercial Crime	\$500
American States Insurance	Waterline Pipeline Liability	\$5,000
American States Insurance	Commercial Fine Arts indoor objects \$250, outdoor \$2,500	\$250
Hartford Fire Insurance Company	Flood Insurance	\$5,000
Superior Underwriters	W.T Preston- Sternwheel Dry-docked	\$5,000

NOTE 9 - SHORT-TERM DEBT**SHORT TERM DEBT**

The City of Anacortes as of December 31, 2009 does not have any short term debt.

NOTE 10 - LONG-TERM DEBT

LONG TERM DEBT

General Obligation Bonds are a direct obligation of the City for which its full faith and credit are pledged. Debt service is paid from the related Debt Service Funds. Debt service for voter-approved issues is funded by special property tax levies. Debt service for City Council authorized or councilmanic issues is funded from regular property taxes and real estate excise taxes. Revenue Bonds are payable from revenues generated by the Water and Sewer Funds.

State of Washington Public Works Trust Fund Loans are a direct responsibility of the City. Anacortes currently has three such loans, one of which aided in construction of the City's Wastewater Treatment Plant completed in 1992, which will be repaid from sewer revenues. The second loan was for Anaco Beach Road improvements and the third loan was for the intersection interchange of SR20/R Avenue, both will be repaid from real estate excise taxes.

In 2003 the City received another CERB loan to provide sanitary sewer services to the recently annexed South March Point industrial area. Repayment on this loan began in 2006 and will come from sewer revenues.

General Obligation Bonds outstanding at year-end are as follows:

2005 Refunded General Obligation Bonds: Refunded a portion of the voter-approved general obligation bonds for the purpose of constructing and equipping a new public library on the site of the existing library.

2009 Refunded General Obligation Bonds: Issued to re-finance the 1999 GO Bonds by the regular (defeasance) advance refunding method at a lower rate of interest reducing annual debt service payments.

Revenue Bonds outstanding at year-end are as follows:

2007 Water Revenue Bonds: Issued to finance the replacement of segment 5 and 6 from 24" to 36" water transmission line. A portion of the proceeds also used to re-finance 2002 Water Revenue Bonds, and 2003 Water Revenue Bonds.

2003 Wastewater (Sewer) Refunding Bonds: Issued to re-finance the 1993 Wastewater Revenue Refunding Bonds by the regular (defeasance) advance refunding method at a lower rate of interest and over a longer maturity life, reducing annual debt service payments.

General Obligation Bonds, Issuances, Redemptions, and Balances Currently Outstanding

	Issue Date	Maturity Date	Interest Rate	Original Amount Issued	Redemptions to Date	Amount Outstanding 12/31/09
2009 GO Refunding	9/28/2009	12/1/2018	3.0 to 4.0%	\$1,965,000	0	\$1,965,000
2005 GO Refunding	8/8/2005	12/1/2020	3.0 to 4.1%	\$4,360,000	\$210,000	\$4,150,000
2000 GO Bonds	7/5/2000	12/1/2010	5.38 to 5.45%	\$6,050,000	\$5,770,000	\$280,000
1999 GO Refunding	6/24/1999	12/1/2012	3.4 to 4.75%	1,490,000	\$1,490,000	0
1999 GO Bonds	6/24/1999	12/1/2018	3.5 to 5.1%	2,050,000	\$2,050,000	0
PWTF Loan #3	9/23/1993	6/1/2013	1%	351,225	\$275,896	75,329
PWTF Loan #4	8/8/1994	6/1/2014	1%	48,374	\$35,644	12,730
	TOTAL GO DEBT			\$16,314,599	\$9,831,540	\$6,483,059

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

Year Ending	Governmental Activities		
	December 31	Principal	Interest
2010	536,378	247,901	
2011	561,378	225,819	
2012	576,378	206,604	
2013	601,378	186,863	
2014	597,546	166,235	
2015-2019	3,120,000	633,710	
2020-2024	490,000	19,845	
Total	\$6,483,059	\$1,686,977	

Revenue Bonds, Issuances, Redemption, and Balances Currently Outstanding

	Issue Date	Maturity Date	Interest Rate	Original Amount Issued	Redemptions to Date	Amount Outstanding 12/31/09
2003 Wastewater Refunding	10/30/2003	11/1/2013	4.0 to 5.0%	6,295,000	3,450,000	\$2,845,000
2007 Water Revenue	5/21/2007	12/1/2026	4.0 to 5.5%	13,400,000	1,905,000	11,495,000
PWTF #2	5/22/1990	6/1/2010	1%	231,525	219,340	12,185
CERB Loan	11/20/2001	7/20/2020	3%	700,000	145,287	554,713
Total Revenue Debt				\$20,626,525	\$5,719,627	\$14,906,898

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

Year Ending	Business-Type Activities		
	December 31	Principal	Interest
2010	1,331,272	658,594	
2011	1,370,259	602,531	
2012	1,421,467	541,174	
2013	1,352,711	477,480	
2014	618,992	407,948	
2015-2019	3,570,566	1,569,910	
2020-2024	3,791,633	787,687	
2025-2029	1,450,000	95,812	
Total	\$14,906,899	\$5,141,136	

At December 31, 2009 the City had \$1,513,150 available to service the General Obligation Bonds. Additionally, there was \$511,286 in restricted assets of enterprise funds to service the Revenue Bonds. These represent sinking funds and reserve requirements as contained in the various bond indentures.

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

Refunded Debt

In 2009 the city issued general obligation bonds at face value of \$1,965,000 with a premium of \$124,365 to defease 1992 and 1999 general obligation bonds that were used to finance the construction of the Fire Station and Police/Court facility, respectively. Total debt service requirements of the refunding bonds is \$2,548,432, refunded debt service requirements was \$2,764,426, resulting in an economic gain to the city of \$215,994.

NOTE 11 – LEASES

The City of Anacortes leases the building serving as the temporary fire station #3 under operating leases. Total cost for this lease was \$15,840 for the year ended December 31, 2009. The future minimum lease payments for this lease are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2010	15,840
2011	15,840

The City has no capital leases as of December 31, 2009.

NOTE 12 – CHANGES IN LONG TERM LIABILITES

During the year ended December 31, 2009 the following changes occurred in long-term liabilities:

Governmental Activities	Beginning Balance 01/01/09	Additions	Reductions	Ending Balance 12/31/09	Due Within One Year
Bonds payable:					
GO/Special Assessment	\$6,920,000	\$1,965,000	\$2,490,000	\$6,395,000	\$515,000
Issuance Discounts / Premiums	-382,500		-22,500	-360,000	
Compensated Absences	676,244	145,412		821,656	821,656
PWTF Loans	109,437		21,378	88,059	21,378
Governmental activity long-term liabilities:	\$7,323,181	\$2,110,412	\$2,488,878	\$6,944,715	\$1,358,034
<hr/>					
Business-Type Activities					
Bonds payable					
Revenue Bonds	\$15,560,000		\$1,220,000	\$14,340,000	\$1,280,000
Issuance Discounts / Premiums	-221,337		-41,032	-180,305	
Compensated Absences	129,534	91,212		\$220,746	220,746
PWTF/CERB Loans	\$617,029		50,133	566,896	51,272
Business-type activity long-term liabilities	\$16,085,227	\$91,212	\$1,229,101	\$14,947,337	\$1,552,018

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$19,280 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

NOTE 13 – CONTINGENCIES AND LITIGATIONS

The City of Anacortes has recorded in its financial statements all material liabilities. In the opinion of management, the City of Anacortes' insurance policies are adequate to pay all known or pending claims.

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

There is one old landfill site the City owns, which has been closed for over 30 years. The requirement for post remediation monitoring is minimal. The city may incur some liability in the event contamination is discovered, however there is no known litigation at this time. Additionally the City has no pollution remediation obligations as defined in GASB statement No. 49.

NOTE 14 – RESTRICTED NET ASSETS

The government-wide statement of net assets reports \$5,077,743 of restricted net assets, of which \$5,077,743 is restricted by enabling legislation.

NOTE 15 – INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Interfund balances as of December 31, 2009 were as follows:

<u>Fund</u>	<u>Due to</u>	<u>Due from</u>
Sewer	\$ 213,184	\$
ACFL Management		213,184
	<u>213,184</u>	<u>213,184</u>

In 2009 the Anacortes Community Forest Land (ACFL) Management fund purchased a section of land from the Sewer fund via interfund loan from the Sewer fund. This balance will be paid off on 12/31/13.

B. Interfund Transfers

Interfund tranfers as of December 31, 2009 were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Arterial Street Construction	\$ 881,658	\$
Water		202,059
Storm Drain		154,599
Non major governmental	245,000	770,000
	<u>1,126,658</u>	<u>1,126,658</u>

Interfund transfers are used to move unrestricted revenues to finance various programs the city must account for in other funds in accordance with budgetary authorizations.

NOTE 16 – RECEIVABLES & PAYABLES

Receivables and payables are adequately presented in the financials and do not require separation presentation.

NOTE 17 - SEGMENT INFORMATION

Segment information is required for activities that meet three requirements:

- The activity is identifiable
- The activity has revenue supported debt outstanding
- The activity is externally required to maintain separate accounts

The City has two utilities that meet this criteria: the Water utility, and the Wastewater utility. However, as both of these qualify as major funds under GAAP criteria, that information is already available in the financial statements in the Statement of Net Assets, Proprietary Funds, and the Statement of Revenues, Expenses, and Changes in Fund Net Assets, Proprietary Funds.

NOTE 18 – JOINT VENTURES

The City does not have any joint ventures as of December 31, 2009.

NOTE 19 - POSTRETIREMENT BENEFITS OTHER THAN PENSION BENEFIT

In addition to the pension benefits described in Note 7, the City of Anacortes provides postretirement health care benefits, in accordance RCW 41.26.150 to retired LEOFF I employees.

Plan Description: The City reimburses 100 percent of the amount of validated claims for medical, prescription, vision and hospitalization costs incurred by pre-Medicare retirees not covered by insurance. The City provides up to \$2000 toward dental procedures each year as established by the Skagit County Disability Board. Currently, nineteen retirees meet the eligibility requirements. The City also reimburses a fixed amount of \$96.40 for Medicare insurance premiums for Leoff 1 retirees enrolled in Medicare parts A & B (there are a couple people who we pay more for Medicare because they failed to sign up during their open enrollment time frame, but it is still a cost savings to pay this and have the lower insurance premium rate).

Funding Policy: Employer contributions are financed by monthly contributions from the General Fund expenditure account to the Interfund Medical Insurance premium revenue account to cover premiums on a pay-as-you-go basis. The City pays the insurance premiums for Leoff 1 Retirees for the AWC Regence Plan A medical coverage through the AWC Trust (does not include preventative care). The City pays the lower Leoff 1 Retiree AWC insurance premium rate for those enrolled in Medicare Parts A & B. In addition, the City pays premiums for long-term care insurance. Insurance and prescription co-pays, including vision and dental are reimbursed in accordance by the Skagit County Disability Board Rules. Expenditures for post-retirement uninsured portions of medical, hospitalization, vision, and dental care coverage are recognized as retirees report claims. During the year, expenditures of \$68,337 were recognized for post-retirement health care other than insurance premiums paid to AWC as described below. No contribution is required from retired beneficiaries or active members.

Other than what is noted above, the City does not provide post-retirement healthcare benefits to any other retirees except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and no direct costs are incurred by the City.

Annual OPEB Cost and Net OPEB Obligation: The City's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty years as of January 1, 2008. The following table shows the components for the City's annual OPEB costs for 2009, the amounts actually contributed to the plans, and the change in the City's net OPEB obligation. The net OPEB obligation of \$571,983 is included as a non-current liability on the Statement of Net Assets.

Annual Required Contribution	\$553,830
Interest on Net OPEB Obligation	14,565
Adjustment to annual required contribution	<u>(22,337)</u>
Annual OPEB cost	546,058
Contributions Made	<u>265,391</u>
Increase in Net OPEB Obligation	280,667
Net OPEB Obligation – Beginning of 2009	<u>291,316</u>
Net OPEB Obligation – End of 2009	571,983

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (asset) are detailed below.

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Contribution as a Percentage of OPEB Cost</u>	<u>Net OPEB Obligation</u>
12/31/2008	\$553,830	47.3%	\$291,316
12/31/2009	546,058	48.6	571,983

Funded Status and Funding Progress: The City implemented the new GASB Statement 45 in 2008 and is required to determine costs every three years. We calculated 2009 costs above, but will calculate the Unfunded Actuarial Accrued Liability in 2011 as required, so 2008 numbers are shown. As of January 1, 2008, the plan was 0% funded. The accrued liability for benefits was \$5,610,490 and the actuarial value of the assets was \$0, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$5,610,490.

Actuarial valuations involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employments, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Actuarial Methods and Assumptions: We have used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.22 was assumed for all active members for the purpose of determining the actuarial accrued liability. Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the September 30, 2006 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2007. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. These assumptions are individually and collectively reasonable for the purposes of this valuation.

The City is a participating Employer in the Association of Washington Cities Employee Benefit Trust.

Trust Description: The City is a Participating Employer in the Association of Washington Cities 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 the financial statements and requires supplementary information for the Trust. That report, along with a copy of the Trust document, may be obtained by writing to Trust and 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling 1-800-562-8981.

Funding Policy: 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 that Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute \$668.43 per month for non-Medicare enrolled retiree-only coverage, \$1339.17 for non-Medicare enrolled retiree and spouse coverage, \$1035.56 for medicare enrolled retiree and non-Medicare enrolled spouse (or non-medicare enrolled retiree and medicare-enrolled spouse) and \$731.95 for Medicare-enrolled retiree and spouse coverage.

Participating Employers are contractually required to contribute at a rate assessed each year by Trust, currently 1.27 percent of annual covered payroll. The City's contributions to the Trust for the year ended December 31, 2009, was \$197,053.50, which equaled the required contribution of that year.

NOTE 20 – OTHER DISCLOSURES

Prior Period Adjustments

An adjustment in the amount of (\$659,020) was recorded in the Statement of Revenues, Expenses, and Changes in Fund Net Assets for Proprietary Funds, in the City's Water fund. This adjustment was to reflect a penalty charge that was collected from one of the City's water customers in 2008, which was returned to the customer in 2009.

The penalty was initially charged to the customer for using more water than what they had contracted to use, thereby activating a consumption penalty. However, in 2009, it was determined that the meters monitoring that customer's usage was loaded with faulty computer programming, and the customer actually did not exceed their contracted volume. Once the City determined the erroneous programming, the penalty was returned to the customer.

**City of Anacortes
Budgetary Comparison Schedule
General Fund, Street Construction Fund, and Ambulance Service Fund
For the Year Ended December 31, 2009**

	General Fund 001				Arterial Street Construction Fund 105				Ambulance Service Fund 110					
	Budgeted Amounts		Actual Amounts		Budgeted Amounts		Actual Amounts		Budgeted Amounts		Actual Amounts		Budgeted Amounts	
	Original	Final	Budgetary Basis	Final	Original	Final	Budgetary Basis	Final	Original	Final	Budgetary Basis	Final	Original	Final
Budgetary Fund Balance	\$ 143,149	\$ 181,217	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 139,547	\$ 192,547	\$ -	\$ -	\$ -	\$ -
Resources (Inflows):														
Taxes	6,957,925	6,957,925	6,633,014	(324,911)	196,521	196,521	193,825	(2,696)	505,764	505,764	432,100	(73,664)		
Licenses and Permits	366,200	366,200	480,382	124,182										
Fines and Forfeitures	110,162	110,162	184,940	74,778										
Charges for Goods & Services	738,970	738,970	435,709	(303,261)										
Intergovernmental Revenues	225,418	225,418	274,920	49,502										
Miscellaneous	2,872,621	2,872,621	35,234	(2,837,387)										
Interest	227,907	227,907	132,501	(95,406)										
Transfers from Other Funds	-	-	-	-										
Amounts Available for Appropriation	11,499,203	11,499,203	8,186,700	(3,312,503)	1,383,599	2,088,599	1,682,108	(471,536)	1,799,264	1,799,264	1,712,041	(87,223)		
Charges to Appropriations (Outflows)														
Judicial	273,132	273,132	275,055	(1,923)										
General government	4,979,258	5,017,326	1,976,337	3,040,989										
Public safety	4,959,498	4,959,498	4,795,399	164,099										
Physical environment	179,007	179,007	163,469	15,538										
Transportation														
Health & Human Services	36,414	36,414	36,409	5										
Economic environment	710,096	710,096	684,872	45,224										
Culture and recreation	419,398	419,398	371,850	47,548										
Capital outlay	85,550	85,550	33,692	51,858										
Nondepartmental:														
Transfers to other funds	-	-	-	-										
Total Charges to Appropriations	11,642,353	11,680,421	8,317,083	3,363,338	1,383,600	2,326,600	2,223,512	103,088	1,938,810	1,991,810	1,983,224	8,587		
Variance With Final Budget Positive (Negative)														

PENSION FUND
SCHEDULE OF FUNDING PROGRESS

December 31, 2009
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
December 31, 1999	\$ 188	\$ 818	\$ 630	23%	\$ 0	N/A
December 31, 2004	\$ 212	\$ 696	\$ 484	30%	\$ 0	N/A
December 31, 2006	\$ 231	\$ 827	\$ 596	28%	\$ 0	N/A

SCHEDULE OF EMPLOYER CONTRIBUTIONS

December 31, 2009

Fiscal Year Ending	Actual Fire Insurance Premiums	Actual Employer Contribution	Total Employer Contribution	Annual Required Contributions (ARC)	Percentage of ARC Contributed
December 31, 2002	9,554	35,167	44,721	(47,483)	(94)%
December 31, 2003	10,815	24,471	35,286	(47,483)	(74)%
December 31, 2004	12,712	26,993	39,705	(47,483)	(84)%
December 31, 2005	12,295	33,383	45,678	(38,521)	(119)%
December 31, 2006	13,341	31,398	44,739	(38,521)	(116)%
December 31, 2007	14,444	22,693	37,137	(45,261)	(82)%
December 31, 2008	19,193	14,721	33,914	(45,261)	(75)%
December 31, 2009	18,300	14,962	33,262	(45,261)	(73)%

* Employer contributions for pensions are total contributions to the Fund net of disbursements from the Fund for medical expense under RCW 41.26.150 and administrative expenses.

TREND INFORMATION

December 31, 2009

Fiscal Year Ending	Annual Pension Cost (APC)	Contribution as a Percentage of APC	Net Pension Obligation (NPO)
December 31, 2005	38,379	119%	2073
December 31, 2006	38,486	116%	(4180)
December 31, 2007	45,354	82%	4,233
December 31, 2008	45,148	75%	15,467
December 31, 2009	44,848	74%	27,053

**LEOFF 1 RETIREE MEDICAL BENEFITS
SCHEDULE OF FUNDING PROGRESS**

December 31, 2009

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
*December 31, 2008	0	\$5,610,490	\$5,610,490	0%	\$246,576.29	2275%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

December 31, 2009

Fiscal Year Ending	Employer Contributions	Other Contributing Entities	Annual Required Contributions (ARC)	Percentage of ARC Contributed
December 31, 2008	\$262,514	\$0	\$553,830	47.3%
December 31, 2009	265,391	0	553,830	48.6

*Limited data as our GASB 45 requirement started as of December 31, 2008 and costs are only determined every three years.

See accompanying notes 7 and 19 to the financial statements

To obtain a copy of the full, stand alone Firemen's Pension Actuarial Valuation, please contact the Finance Department at 360-293-1900.



ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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

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