

Washington State Auditor's Office
Financial Statements Audit Report

City of Anacortes
Skagit County

Audit Period
January 1, 2007 through December 31, 2007

Report No. 1000597

Issue Date
February 9, 2009



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

February 9, 2009

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.

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Table of Contents

**City of Anacortes
Skagit County
January 1, 2007 through December 31, 2007**

Schedule of Audit Findings and Responses	1
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with <i>Government Auditing Standards</i>	4
Independent Auditor's Report on Financial Statements	6
Financial Section	8

Schedule of Audit Findings and Responses

City of Anacortes Skagit County January 1, 2007 through December 31, 2007

1. The City does not have adequate internal controls in place to ensure accurate financial reporting.

Background

City management, taxpayers, bondholders, creditors, banks, the state Legislature state and federal agencies rely on the information included in financial statements and reports to make decisions. It is the responsibility of City management to design and follow effective internal controls to provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a material weakness in controls that adversely affects the City's ability to produce reliable financial statements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate a material weakness, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

We identified the following significant deficiencies in internal controls that, when taken together, represent a material weakness in the City's controls over financial statement preparation:

- The City has internal controls in place to ensure the proper reporting of changes to the infrastructure asset balance. However, a breakdown in communication between the Public Works and Finance Departments prevented the internal controls from functioning properly. As a result, the City's Finance Department was unaware of a detailed survey of the City's storm drains system completed by the City's Public Works Department. The survey indicated the City had significantly more storm drain infrastructure assets than what was initially recorded in the financial statements. The subsequent valuation of this survey resulted in a material misstatement of the infrastructure assets balance for the aggregate remaining funds.
- The City does not have an adequate review process to ensure general ledger information is accurately recorded in financial statements. During our review of financial statement balances, we noted several errors and instances in which the amounts recorded in the statements did not reconcile to the City's general ledger.

Cause of Condition

Internal controls over infrastructure reporting were not adequate to ensure information necessary for accurate financial reporting was provided or requested by City departments.

The City's internal controls over financial reporting are not appropriately designed to ensure financial information presented in its financial statements reconciles to the underlying financial records.

Effect of Condition

The City's financial information contained errors that were not detected by City personnel. During our review of the City's financial statements, we found the following error that was subsequently corrected by the City:

- Assets for the aggregate remaining funds were understated by \$4,923,673 in the financial statements. This error was material to the aggregate remaining funds of the City's business-type activities.

During our review we found the following errors that were not corrected by the City:

- Net depreciable assets recorded in the Statement of Net Assets for Governmental Activities were understated by \$1,507,148.
- The total of all amounts that were represented as transfers-in exceed the total amount of transfers-out by \$297,172. This was due to errors in accounting entries regarding the transfers of fire impact fees and land held as an investment.
- Cash and investments were understated by \$64,193. The discrepancy between the City's general ledger and the bank's records is recurring and increased by approximately \$20,000 since the prior year. This error is attributed to a problem with the general ledger.

The identified deficiencies in internal controls make it possible that misstatements could occur and not be prevented or detected by the City in future years.

Despite these internal control issues and noted errors, the City ultimately provided financial statements on which we are issuing an unqualified opinion.

Recommendation

We recommend the City establish and follow internal controls to ensure:

- Effective communication between the Finance Department and other City departments.
- Amounts reported on the financial statements reconcile to the City's general ledger.
- The general ledger accurately reflects the City's financial position.

City's Response

Two general issues were noted in the finding:

The first involves reporting of infrastructure on the Storm Drain Utility Statement. Storm Drain infrastructure has been constructed since the city's inception on a continuing basis and depreciated over a 50 year life; as those assets complete they are added to the financial statements. As noted by the auditors, over time there were certain assets that were inadvertently not included on the financial statements. It was determined the City had been under reporting the figure, and the city actually owns more assets than what had previously been reported. The city has now implemented a process to ensure all assets are identified and properly entered into the accounting system to ensure accurate financial reporting.

The second involves the general ledger not agreeing to some of the figures on the financial statements. We were aware of these issues but had determined in the preparation process that in all instances the differences were immaterial, and in no instances were public resources at risk. In subsequent years we will focus our efforts to ensure the general ledger accurately reconciles to the financial statements.

Auditor's Remarks

We appreciate the steps the City is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

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

Budget Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1, Accounting Principles and General Procedures, Section B, Internal Control, states in part:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

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

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

a. Significant deficiency: a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

b. Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

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

**City of Anacortes
Skagit County
January 1, 2007 through December 31, 2007**

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, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 3, 2008.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies involving the internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control over financial reporting. We consider the deficiency described in the accompanying Schedule of Audit Findings and Responses to be a significant deficiency in internal control over financial reporting, and is reported as Finding 1 .

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be

prevented or detected by the City's internal control. Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 1 to be a material weakness.

COMPLIANCE AND OTHER MATTERS

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

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

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

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

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is stylized and cursive.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 3, 2008

Independent Auditor's Report on Financial Statements

City of Anacortes Skagit County January 1, 2007 through December 31, 2007

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, 2007, which collectively comprise the City's basic financial statements as listed on page 8. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Anacortes, as of December 31, 2007, 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 9 through 16 ,budgetary comparison information on page 55 and pension trust fund information on page 56 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" written in a larger, more prominent script than the last name "Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 3, 2008

Financial Section

**City of Anacortes
Skagit County
January 1, 2007 through December 31, 2007**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2007

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2007

Statement of Activities – 2007

Balance Sheet – Governmental Funds – 2007

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds –
2007

Statement of Net Assets – Proprietary Funds – 2007

Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds – 2007

Statement of Cash Flows – Proprietary Funds – 2007

Statement of Fiduciary Net Assets – Fiduciary Funds – 2007

Statement of Changes in Fiduciary Net Assets – Fiduciary Funds – 2007

Notes to Financial Statements – 2007

REQUIRED SUPPLEMENTAL INFORMATION

Budgetary Comparison Schedule – General Fund and Arterial Street Fund – 2007

Pension Fund – Schedule of Funding Progress – 2007

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, 2007. 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 \$171,274,184. A total of 79% or \$135,759,491 of total net assets net of related debt is invested in capital such as infrastructure, land and buildings. Of the remaining net assets, 13%, or \$22,015,628 of total net assets is available to meet the government's ongoing activities and obligations, and 8%, or \$13,499,065, is restricted.
- \$57,615,777 of the infrastructure assets increase was specifically due to the adjustment to capital assets to reflect the value of land, roads and right of ways to become fully compliant with GASB 34 and the valuing of capital assets and infrastructure. In 2002 the City began recording infrastructure purchases and contributions as they occurred; however in 2007, the City needed to capture the value of all pre-2002 capital assets in the financial statements resulting in a restatement of beginning net assets.
- Another \$ 5,024,448 of the infrastructure asset increase was due to updating the Storm Water infrastructure to ensure assets reported were complete.
- The City of Anacortes' net assets increased by \$55,454,205 in 2007.
- Governmental fund balances at year-end were \$14,391,542, a \$ 707,628 increase over the prior year. Of this amount, a total of \$ 12,397,818, or 86%, of the governmental fund balance is unreserved and available to fund ongoing activities with \$1,753,219 earmarked for debt services.
- The unreserved fund balance in the General Fund is \$7,052,230 or \$1,208,940 increase from the prior year.
- In June of 2007 the City issued \$13.4 million in Water Revenue bonds to refund higher rate bonds, and to pay for the Segment 5 and 6 water pipeline replacement project.

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. You will need to consider other non-financial factors, however, 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 2007	Business- type Activities 2007	Total for 2007	Government Activities 2006	Business- type Activities 2006	Total for 2006	% of Increase (Decrease) from Prior Year Total
Assets							
Capital Assets*	81,929,156	79,852,138	161,781,293	34,411,028	62,457,701	96,868,729	
Other Assets	18,687,052	17,664,778	36,351,830	19,260,667	18,873,370	38,134,037	
Total Assets	100,616,208	97,516,916	198,133,123	53,671,695	81,331,071	135,002,766	46.76%
Liabilities							
Other Liabilities	1,216,461	3,729,695	4,946,152	2,335,888	2,501,986	4,837,874	
Long-term Liabilities	6,624,437	15,288,346	21,912,783	7,088,315	7,256,597	14,344,912	
Total Liabilities	7,840,888	19,018,041	26,858,929	9,424,203	9,758,583	19,182,786	40.02%
Net Assets							
Restricted	7,254,731	6,244,336	13,499,067	7,963,539	1,957,357	9,920,896	
Unrestricted	12,200,371	9,815,257	22,015,628	10,979,239	16,485,036	27,464,275	
Invested in Capital net of debt*	73,320,207	62,439,283	135,759,490	25,304,713	53,130,095	78,434,808	
Total Net Assets	92,775,309	78,498,876	171,274,185	44,247,491	71,572,488	115,819,979	47.88%

* Restated to accommodate GASB 34 infrastructure additions

The largest component of the City's net assets, 78% or \$ 135,759,491, 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 2007 due to the completion of major street projects and 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 2007	Business- type Activities 2007	Total for 2007	Government Activities 2006	Business- type Activities 2006	Total for 2006	% of Increase (Decrease) from Prior Year Total
Revenues							
Property Taxes	4,249,662		4,249,662	4,002,678		4,002,678	6.17%
Sales Taxes	4,208,629		4,208,629	3,877,624		3,877,624	8.54%
Utility Taxes	2,527,467		2,527,467	2,360,751		2,360,751	7.06%
All Other General Revenues	6,222,336		6,222,336	5,955,710		5,955,710	4.48%
Water		7,567,846	7,567,846		7,594,293	7,594,293	-0.35%
Sewer		4,578,037	4,578,037		4,957,820	4,957,820	-7.66%
Solid Waste		2,271,510	2,271,510		2,103,347	2,103,347	8.00%
Storm		697,372	697,372		699,823	699,823	-0.35%
Total Revenues	17,208,094	15,114,765	32,322,859	16,196,763	15,355,283	31,552,046	2.44%
Expenses:							
Judicial	240,559		240,559	239,395		239,395	0.49%
General Government	1,780,672		1,780,672	1,797,378		1,797,378	-0.93%
Public Safety	6,429,272		6,429,272	6,508,850		6,508,850	-1.22%
Physical Environment	702,864		702,864	509,062		509,062	38.07%
Transportation	896,442		896,442	1,143,705		1,143,705	-21.62%
Human Services	35,997		35,997	442,399		442,399	-91.86%
Economic Environment	1,292,081		1,292,081	1,151,390		1,151,390	12.22%
Health	20,516		20,516	17,125		17,125	19.81%
Culture & Recreation	2,885,078		2,885,078	2,923,512		2,923,512	-1.31%
Interest on long-term debt	373,062		373,062	393,605		393,605	-5.22%
Water		6,049,429	6,049,429		4,909,863	4,909,863	23.21%
Waste Water		4,259,271	4,259,271		4,266,005	4,266,005	-0.16%
Solid Waste		1,893,808	1,893,808		1,810,691	1,810,691	4.59%
Storm Drain		565,318	565,318		630,985	630,985	-10.41%
Total Expenses	14,656,543	12,767,826	27,424,369	15,126,421	11,617,544	26,743,965	2.54%
Transfers:	147,827	(445,000)	-297,173	(52,000)	52,000	0	
Change in Net Assets: Net Assets beginning - Restated	2,937,342	1,901,939	4,839,281	1,018,342	3,789,739	4,808,081	
	89,837,967	76,596,939	166,434,455	43,229,148	67,782,749	111,011,897	
Net Assets Ending	92,775,309	78,498,875	171,274,184	44,247,490	71,572,488	115,819,978	47.88%

Governmental activities contributed \$ 2,937,342 of the total change in net assets of \$4,839,281. Key elements of the increase are:

- Sales tax revenue increased \$331,005, or 8.5% compared to 2006.
- Property tax revenue increased 246,984, or 6%; the City increased property taxes by 1% in 2007, so the remaining 5% increase was due to new construction.
- There was continued strong revenue in Other General Revenues reflected in Real Estate Excise Tax, Impact Fees, and other building permit related fees.
- Interest earnings for governmental activities were \$882,073.

Business-Type Activities contributed \$1,901,939 of the total change in net assets of \$4,839,281. Key elements of the increase are:

- Revenues of the City's business-type activities were consistent with 2006 revenues, while expenses increased 9.9%, resulting in a reduced positive change in net assets in 2007 compared to 2006.
- There were over \$829,000 in general facility charge payments.
- Interest earnings for business type activities were \$986,447.

THE CITY'S FUNDS

As the City completed the year, its governmental funds, as presented in the balance sheet, reported a *combined* fund balance of \$14,391,542 which is an increase of \$707,628 from 2006.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget by \$4,590,700. This was for projects from 2006 that need to be re-appropriated into 2007, increase in business in the enterprise funds, and some unanticipated expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

CAPITAL ASSET AND DEBT ADMINISTRATION

The City of Anacortes's investment in capital assets for its governmental and business-type activities, net of accumulated depreciation was \$161.78 million, an increase of \$64,912,564 or 40%. \$57,615,777 of this increase was specifically due to the adjustment to capital assets to reflect the value of roads and right of ways to become fully compliant with GASB 34 and the valuing of capital assets and infrastructure. In 2002 the City began recording infrastructure purchases and contributions as they occurred; however in 2007, the City needed to capture the value of all pre-2002 capital assets in the financial statements resulting in a restatement of beginning net assets. This investment includes land, buildings and improvements, infrastructure, machinery and equipment and construction in progress. The City has elected to exclude art and historical treasures.

An additional \$5,024,448 of the increase was due to updating the Storm Water infrastructure inventory, resulting in restatement of beginning net assets.

Major Changes in Capital Assets, Depreciable Basis

Buildings & Components	55,046
Waterlines	8,130
Fleet Equipment	166,412
Land	
Park Facilities	105,523
Pump stations	19,499
Roadways	2,675,905
Sewage Collection Systems	272,479
Sidewalks, Curb & Gutter	286,523
Storm Drains	
Disposition of Fleet Equipment	
Disposition of Other Assets	
Total Changes	<u>\$3,589,517</u>

Major Changes for Governmental Capital Assets (Net)

Judicial	0
General Government	237,964
Public Safety	0
Buildings & Facilities	0
Transportation	2,610,536
Economic Environment	0
Culture & Recreation	0
Total	<u>\$2,848,500</u>

Major Changes for Business Type Capital Assets (Net)

Utilities	741,017
Equipment Rental	166,412
Total	<u>\$907,429</u>

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

	Government Activities 2006	Business-type Activities 2006	Total for 2006	Government Activities 2007	Business- type Activities 2007	Total for 2007	% of Increase (Decrease) from Prior Year Total
Land	7,234,211	1,633,159	8,867,370	48,090,414	1,633,159	49,723,573	460.75%
Buildings	11,377,317	7,501,499	18,878,816	11,090,934	7,278,786	18,369,720	-2.70%
Infrastructure & Improvements Other than Buildings	8,011,539	45,281,219	53,292,758	18,773,815	49,171,301	67,945,116	27.49%
Machinery and Equipment	187,381	5,990,648	6,178,029	170,617	5,789,828	5,960,445	-3.52%
Construction in Progress	5,259,288	4,392,474	9,651,762	1,255,080	18,527,050	19,782,130	104.96%
	32,069,736	64,798,999	96,868,735	79,380,860	82,400,439	161,781,299	67.01%

Infrastructure amounts are restated to accommodate GASB 34

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

At year-end, the City had \$24,928,671 in bonds and loans outstanding versus \$17,309,799 last year, an increase of \$7,618,872. The increase was the result of a \$13.4M Water Revenue bond that was issued to raise funds to pay for the waterline segment 5 and 6 replacement project, and to refund the 2002 Water revenue bond for 2.9M, and refund the 2003 Water revenue bond for 985,000.

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

	Government Activities 2007	Business- type Activities 2007	Government Activities 2006	Business- type Activities 2006	% Change from Prior Year Total
General obligation bonds and loans	7,515,815		7,982,193		-5.84%
Revenue bonds and loans		17,412,856		9,327,606	86.68%

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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2008 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, especially in residential construction, was a factor weighed, as well as the attraction of our community as a place to live. The City of Anacortes has always been cautiously optimistic about the City's future economic health while taking a very conservative view on budget growth during this time of a down-turned economy.

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.

The City experienced record building activity in 2006, which flattened in 2007, and expects this trend will decline through 2008.

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, 2007

	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
<i>Current Assets:</i>			
Cash & cash equivalents	\$ 14,293,295	\$ 5,027,312	\$ 19,320,607
Investments	434,089	-	434,089
Receivables (net)	589,073	277,445	866,519
Internal Balances	(356)	356	0
Inventories	-	360,905	360,905
Prepaid items	-	-	-
<i>Noncurrent Assets:</i>			
Restricted cash & investments:			
Capital Reserve	3,327,939	5,614,225	8,942,164
Bond covenant accounts	-	6,244,336	6,244,336
Deferred charges & other assets			
Deferred charges	43,012	78,800	121,812
Noncurrent receivables	-	-	-
Other	-	61,399	61,399
<i>Capital Assets:</i>			
Land	48,093,930	1,629,643	49,723,573
Depreciable assets (net)	32,580,147	59,695,444	92,275,591
Construction in progress	1,255,079	18,527,050	19,782,129
Total Assets	100,616,208	97,516,915	198,133,123
LIABILITIES			
<i>Current Liabilities:</i>			
Accounts payable and accrued exp.	648,765	1,738,534	2,387,299
Unearned revenue	(605,679)	-	(605,679)
Other current liabilities	-	-	-
<i>Current Liabilities Payable from Restricted Assets:</i>			
Liabilities payable from restricted assets	-	-	-
<i>Noncurrent Liabilities:</i>			
Due within one year	1,173,375	1,374,129	2,547,504
Due in more than one year	6,624,437	15,905,377	22,529,814
Total Liabilities	7,840,898	19,018,041	26,858,939
NET ASSETS (Restated)			
Invested in capital assets, net of related debt	73,320,208	62,439,282	135,759,491
Expendable restricted for:			
Debt service	2,853,052	6,244,336	9,097,387
Capital projects	2,151,950	-	2,151,950
Other	485,310	-	485,310
Nonexpendable restricted	1,764,418	-	1,764,418
Unrestricted	12,200,372	9,815,257	22,015,628
Total Net Assets	\$ 92,775,310	\$ 78,498,874	\$ 171,274,184

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

City of Anacortes
Statement of Activities
Year Ended December 31, 2007

	Grants & Contributions			Net (Expense) Revenue & Changes in Net Assets			
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-type Activities	Total
FUNCTIONS/PROGRAMS							
<i>Governmental Activities:</i>							
Judicial	\$ 240,559	\$ 73,479	\$ 9,205	\$ -	\$ (157,875)	\$ -	\$ (157,875)
General Governn	1,780,672	489,526	-	13,420	(1,277,727)	-	(1,277,727)
Public Safety	6,429,272	1,188,531	7,899	49,000	(5,183,842)	-	(5,183,842)
Physical Environi	702,864	82,054	-	-	(620,810)	-	(620,810)
Transportation	896,442	94,752	1,146,644	12,392	357,346	-	357,346
Human Services	35,997	-	-	-	(35,997)	-	(35,997)
Economic Enviroi	1,292,081	597,409	-	-	(694,671)	-	(694,671)
Health	20,516	-	5,829	-	(14,687)	-	(14,687)
Culture & Recrea	2,885,078	100,114	34,440	6,712	(2,743,812)	-	(2,743,812)
Interest on long-t	373,062	-	-	-	(373,062)	-	(373,062)
Total Governmental Activities	14,656,543	2,625,865	1,204,017	81,525	(10,745,136)	-	(10,745,136)
<i>Business-type Activities:</i>							
Electric & Gas	-	-	-	-	-	-	-
Water	6,049,429	6,851,392	-	195,225	-	997,188	997,188
Sewer	4,259,271	3,774,308	-	531,925	-	46,963	46,963
Cemetery	-	-	-	-	-	-	-
Garbage & Solid	1,893,808	2,160,520	-	-	-	266,711	266,711
Other Utilities	565,318	513,098	-	101,850	-	49,630	49,630
Total Business-type Activities	12,767,826	13,299,318	-	829,000	-	1,360,492	1,360,492
Total Government	\$ 27,424,369	\$ 15,925,183	\$ 1,204,017	\$ 910,525	\$ (10,745,136)	\$ 1,360,492	\$ (9,384,644)
GENERAL REVENUES:							
Property Taxes					4,249,662	-	4,249,662
Sales Taxes					4,208,629	-	4,208,629
Utility Taxes					2,527,467	-	2,527,467
Other Taxes					1,310,539	-	1,310,539
Unrestricted Grants & Contributions					118,317	-	118,317
Investment Earnings					882,073	986,447	1,868,520
Disposition of capital assets					-	-	-
					385,791	(445,000)	(59,209)
Total General Revenues & Transfers					13,682,479	541,447	14,223,926
Change in Net Assets					2,937,342	1,901,939	4,839,281
Net Assets - Beginning (restated)					89,837,967	76,596,936	166,434,903
Net Assets - Ending					\$ 92,775,309	\$ 78,498,875	\$ 171,274,184

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

**City of Anacortes
Balance Sheet
Government Funds
December 31, 2007**

	General	Arterial Street Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
<i>Current Assets:</i>				
Cash & cash equivalents	7,285,621	287,939	6,372,553	13,946,112
Investments	0	0	434,089	434,089
Receivables (net)	391,873	9,371	187,829	589,073
Total assets	7,677,493	297,310	6,994,470	14,969,274
LIABILITIES				
<i>Current Liabilities:</i>				
Accounts payable and accrued exp.	445,384	16,515	113,376	575,275
Payable to other governments	18,476	-	230	18,707
Due to other funds	-	-	356	356
Deferred revenue	(79,102)	3,689	58,808	(16,606)
Total liabilities	384,758	20,204	172,770	577,732
FUND BALANCE				
<i>Reserved for:</i>				
Encumbrances, petty cash, inventory	36	-	-	36
Interfund loans	-	-	-	-
Debt service	-	-	1,753,219	1,753,219
Capital improvements	-	-	-	-
Other	240,470	-	-	240,470
<i>Unreserved, reported in</i>				
General Fund	7,052,230	-	-	7,052,230
Special revenue funds	-	277,106	3,303,988	3,581,094
Debt service funds	-	-	76	76
Capital project funds	-	-	1,764,418	1,764,418
Total fund balance	7,292,736	277,106	6,821,700	14,391,542
Total liabilities and fund balance	\$ 7,677,493	\$ 297,310	\$ 6,994,470	\$ 14,969,274

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	79,380,858
The focus of governmental funds is on short-term financing; long-term assets are deferred in the funds	632,085
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(7,787,082)
Internal service funds are used by management to charge the costs of certain activities to individual funds.	
These assets and liabilities are included in governmental activities in the statement of net assets.	6,157,907
Net assets of governmental activities	<u>\$ 92,775,310</u>

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

City of Anacortes
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended December 31, 2007

	General Fund	Arterial Street Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
<i>Taxes:</i>				
Property	\$ 1,061,583	\$ 268,504	\$ 2,930,320	\$ 4,260,408
Sales	3,512,691	-	695,938	4,208,629
Utility	2,527,467	-	-	2,527,467
Other	176,090	-	1,041,374	1,217,464
Licenses & Permits	423,938	-	7,925	431,863
Intergovernmental	316,712	734,952	1,075,266	2,126,930
Charges for Services	203,948	-	903,859	1,107,807
Fines & Forfeitures	111,843	-	6,273	118,116
Investment Earnings	422,630	-	307,458	730,088
Rents & Leases	11,227	-	322,950	334,177
Miscellaneous Revenues	511,418	-	22,223	533,641
Total revenues	9,279,548	1,003,456	7,313,587	17,596,591
EXPENDITURES				
<i>Current:</i>				
Judicial	237,137	-	-	237,137
General Government	2,203,403	-	12,389	2,215,792
Public Safety	4,372,928	-	1,812,839	6,185,767
Physical Environ	145,416	187,207	340,783	673,406
Transportation	-	-	774,061	774,061
Health & Human Services	56,495	-	-	56,495
<i>Economic Environment</i>	669,067	-	370,364	1,039,431
<i>Culture & Recreation</i>	332,400	-	1,933,579	2,265,979
<i>Debt Service:</i>				
Principal	-	-	466,378	466,378
Interest	-	2,292	345,273	347,565
Other	-	-	607	607
Capital Outlay:				
General government	-	-	-	-
Judicial	-	-	-	-
Public safety	13,422	-	10,094	23,515
Physical environment	-	-	-	-
Transportation	-	2,239,607	266,916	2,506,524
Health & Human services	-	-	-	-
Economic environment	-	-	-	-
Culture & recreation	-	-	244,134	244,134
Total expenditures	8,030,268	2,429,106	6,577,417	17,036,791
Excess (deficiency) of revenues over (under) expenditures	1,249,280	(1,425,650)	736,170	559,800
OTHER FINANCING SOURCES (USES)				
Uncollectible account expense	-	-	-	-
Other changes	-	-	-	-
Transfers in	-	2,452,000	588,500	3,040,500
Transfers out	(35,000)	-	(2,857,672)	(2,892,672)
Debt proceeds & capital leases	-	-	-	-
Refunding debt proceeds	-	-	-	-
Disposition of capital assets	-	-	-	-
Total other financing sources (uses)	(35,000)	2,452,000	(2,269,172)	147,828
Net change in fund balances	1,214,280	1,026,350	(1,533,003)	707,627
Fund balances--beginning	6,078,456	(749,245)	8,354,703	13,683,914
Fund balances--ending	7,292,736	277,105	6,821,700	14,391,541

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

City of Anacortes
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended December 31, 2007

Amounts reported for governmental activities in the statement of activities are different because:	
Net changes in fund balances for governmental funds	707,627
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	2,884,477
Depreciation	(1,159,484)
Cost of Assets Sold	
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	
Debt Retired	466,378
Issuance Costs of Refunding	-
Some revenues reported in the statement of activities are not yet available and, therefore, are not reported as revenues in the governmental funds.	\$ (43,789)
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.	\$ (141,314)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of most of these activities is reported with governmental activities.	<u>223,447</u>
Change in net assets of governmental activities	<u><u>2,937,342</u></u>

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

City of Anacortes
Statement of Net Assets
Proprietary Funds
December 31, 2007
Business-type Activities--Enterprise Funds

	Water Fund	Sewer Fund	Sanitation Fund	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
ASSETS						
<i>Current assets:</i>						
Cash & cash equivalents	\$ (349,694)	\$ 2,272,386	\$ 2,568,171	\$ 536,449	\$ 5,027,312	\$ 347,184
Investments	-	-	-	-	-	-
Receivables (net)	(279,123)	331,084	191,009	34,476	277,445	-
Due from other funds	356	-	-	-	356	-
Inventories	360,905	-	-	-	360,905	-
Prepaid items	-	-	-	-	-	-
<i>Noncurrent assets:</i>						
<i>Restricted cash & investments:</i>						
Capital Reserve	2,540,348	2,161,026	-	912,851	5,614,225	3,327,939
Bond covenant accounts	5,136,884	1,107,451	-	-	6,244,336	-
<i>Deferred charges & other assets</i>						
Deferred charges	-	78,800	-	-	78,800	-
Noncurrent receivables	-	-	-	-	-	-
Other	-	61,399	-	-	61,399	-
<i>Capital assets:</i>						
Land	317,860	1,054,078	-	257,705	1,629,643	3,516
Depreciable assets (net)	1,361,082	9,082,683	79,406	4,384	10,527,555	2,541,057
Infrastructure	27,175,256	14,824,746	-	7,167,887	49,167,890	3,725
Construction in progress	15,416,034	2,579,834	-	531,182	18,527,050	-
Total assets	51,679,908	33,553,487	2,838,586	9,444,934	97,516,915	6,223,421
LIABILITIES						
<i>Current liabilities:</i>						
Accounts payable and accrued exp.	1,426,939	158,344	76,865	39,776	1,701,925	54,701
Payable to other governments	-	320	(102)	-	218	83
Due to other funds	-	-	-	-	-	-
Matured bond & interest payable	-	36,392	-	-	36,392	-
Accrued interest payable	-	-	-	-	-	-
Compensated absences	55,186	51,488	10,890	20,742	138,306	10,730
Claims and judgments	-	-	-	-	-	-
Bonds, notes, loans payable	565,000	670,824	-	-	1,235,824	-
<i>Current liabilities payable from restricted assets:</i>						
Liabilities payable fr restricted assets	-	-	-	-	-	-
<i>Noncurrent liabilities:</i>						
Bonds, notes, loans payable	12,080,000	4,097,031	-	-	16,177,031	-
Other noncurrent liabilities	76,864	(348,518)	-	-	(271,654)	-
Total liabilities	14,203,990	4,665,880	87,653	60,518	19,018,041	65,514
NET ASSETS						
<i>Contributed Capital</i>						
Contributed Capital	11,638,577	27,720,309	-	8,298,497	47,657,383	1,527,594
<i>Invested in Capital Assets net of Related Debt</i>						
Invested in Capital Assets, net	-	-	-	-	-	-
<i>Reserved/restricted for:</i>						
Interfund loans	0	-	-	-	0	-
Debt service	761,377	837,870	-	-	1,599,247	-
Capital improvements	12,545,743	1,098,589	15,000	153,000	13,812,332	2,151,874
Other	834,332	217,934	87,621	24,888	1,164,775	244,841
<i>Unreserved/unrestricted Equity</i>						
Proprietary funds	11,695,889	(987,096)	2,648,312	908,031	14,265,136	2,233,598
Total Net Assets	\$ 37,475,918	\$ 28,887,607	\$ 2,750,933	\$ 9,384,416	\$ 78,498,874	\$ 6,157,907

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

City of Anacortes
Statement of Net Assets
Proprietary Funds
December 31, 2007
Business-type Activities--Enterprise Funds

	Water Fund	Sewer Fund	Sanitation Fund	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
NET ASSETS (Restated)						
Net capital assets	\$ 44,270,232	\$ 27,541,341	\$ 79,406	\$ 7,961,158	\$ 79,852,137	\$ 2,548,298
ADD unspent proceeds of capital debt	-	-	-	-	-	-
LESS noncurrent debt (net of premium/discount)	(12,080,000)	(4,097,031)	-	-	(16,177,031)	-
LESS current debt principal	(565,000)	(670,824)	-	-	(1,235,824)	-
ADD debt-related deferred charges	-	-	-	-	-	-
ADD debt not related to capital assets	-	-	-	-	-	-
Invested in capital assets, net of related debt	<u>31,625,232</u>	<u>22,773,486</u>	<u>79,406</u>	<u>7,961,158</u>	<u>62,439,282</u>	<u>2,548,298</u>
Bond covenant restricted assets	5,136,884	1,107,451	-	-	6,244,336	-
LESS unspent proceeds of capital debt	-	-	-	-	-	-
LESS payables from restricted assets	-	-	-	-	-	-
Restricted for debt service	<u>5,136,884</u>	<u>1,107,451</u>	<u>-</u>	<u>-</u>	<u>6,244,336</u>	<u>-</u>
Current assets	(267,556)	2,603,470	2,759,180	570,924	5,666,018	347,184
LESS current liabilities	(1,482,126)	(246,544)	(87,653)	(60,518)	(1,876,840)	(65,514)
ADD Capital Reserve	2,540,348	2,161,026	-	912,851	5,614,225	3,327,939
ADD deferred charges & other assets	-	140,199	-	-	140,199	-
Excluding debt-related deferred charges	-	-	-	-	-	-
LESS debt not related to capital assets	-	-	-	-	-	-
LESS noncurrent liab except debt	(76,864)	348,518	-	-	271,654	-
Unrestricted	<u>713,802</u>	<u>5,006,670</u>	<u>2,671,527</u>	<u>1,423,258</u>	<u>9,815,257</u>	<u>3,609,609</u>
TOTAL net assets	<u>\$ 37,475,918</u>	<u>\$ 28,887,607</u>	<u>\$ 2,750,933</u>	<u>\$ 9,384,416</u>	<u>\$ 78,498,874</u>	<u>\$ 6,157,907</u>
Net assets of business-type activities					<u>\$ 78,498,874</u>	

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

City of Anacortes
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended December 31, 2007

	Water Fund	Sewer Fund	Sanitation Fund	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities-Internal Service Funds
OPERATING REVENUES						
<i>Charges for Services:</i>						
Electric & Gas	-	-	-	-	-	
Water	\$ 6,762,045	\$ -	\$ -	\$ -	\$ 6,762,045	
Sewer	-	3,772,071	-	-	3,772,071	
Cemetery	-	-	-	-	-	
Garbage & Solid Waste	-	-	2,160,520	-	2,160,520	
Other utilities	-	-	-	513,098	513,098	
Other services	-	-	-	-	-	1,333,241
Total operating revenues	6,762,045	3,772,071	2,160,520	513,098	13,207,734	1,333,241
OPERATING EXPENSES						
Maintenance & operations	3,773,131	2,210,723	1,796,242	473,882	8,253,979	871,257
Administrative & general	889,127	334,270	75,111	27,311	1,325,819	54,639
Depreciation	970,598	1,403,999	22,455	64,124	2,461,176	430,636
Total operating expenses	5,632,856	3,948,992	1,893,808	565,318	12,040,974	1,356,532
Operating income (loss)	1,129,190	(176,921)	266,711	(52,220)	1,166,760	(23,291)
NONOPERATING REVENUES (EXPENSES)						
Taxes	-	-	-	-	-	-
Investment earnings	521,229	271,804	110,990	82,424	986,447	151,985
Interest expense	(409,394)	(240,007)	-	-	(649,401)	-
Debt issuance costs	(7,179)	(70,272)	-	-	(77,451)	-
Gain (loss) on disposition of assets	-	-	-	-	-	(6,400)
Miscellaneous nonoperating revenues (expenses)	89,347	2,237	-	-	91,584	94,752
Total non-operating income (expense)	194,001	(36,237)	110,990	82,424	351,179	240,338
Income before contributions & transfers	1,323,191	(213,158)	377,702	30,204	1,517,939	217,047
Capital contributions	195,225	531,925	-	101,850	829,000	-
<i>Transfers</i>						
Transfers in	-	-	-	-	-	-
(Transfers out)	(180,000)	-	-	(265,000)	(445,000)	-
Change in net assets	1,338,416	318,767	377,702	(132,946)	1,901,939	217,047
Net assets--beginning (restated)	36,137,502	28,568,840	2,373,233	9,517,360	76,596,935	- 5,940,860
Net assets--ending	\$ 37,475,918	\$ 28,887,607	\$ 2,750,935	\$ 9,384,414	\$ 78,498,874	\$ 6,157,907

Change in net assets of business-type activities \$ 1,901,939

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

City of Anacortes
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2007

	Business-Type Activities					Governmental Activities
	Water Fund	Sewer Fund	Sanitation Fund	Other Enterprise Funds	Totals	Internal Service Fund
Cash flows from operating activities						
Cash received from customers	\$ 7,278,080	\$ 3,694,095	\$ 2,079,358	\$ 496,840	\$ 13,548,373	\$ 113,162
Cash operating grants received from other governments	15,898	-	-	-	15,898	-
Cash paid for goods and services	(990,952)	(725,972)	(1,065,163)	(35,071)	(2,817,157)	(590,100)
Cash paid to employees	(1,742,425)	(1,538,975)	(481,593)	(400,790)	(4,163,783)	(243,597)
Cash received for quasi-external operating transactions	-	-	-	-	-	1,258,762
Cash paid for quasi-external operating transactions	(423,717)	(264,022)	(328,247)	(48,854)	(1,064,840)	(50,415)
Cash paid for taxes	(375,235)	(76,489)	(28,943)	(20,540)	(501,208)	(56)
Other cash received	-	-	-	-	-	-
Other cash paid	-	-	-	-	-	-
Net cash provided by operating activities	3,761,649	1,088,637	175,412	(8,415)	5,017,283	487,756
Cash flows from noncapital financing activities						
Proceeds from issuing long-term debt (see Note 1)	-	-	-	-	-	-
Payments to bond trustee for refunding	-	-	-	-	-	-
Interfund loans issued	-	-	-	-	-	-
Interfund loan repayments & interest	10,886	-	-	-	10,886	-
Operating subsidies and transfers to other funds	(180,000)	-	-	(265,000)	(445,000)	-
Net cash provided by noncapital financing	(169,114)	-	-	(265,000)	(434,114)	-
Cash flows from capital and related financing activities						
Proceeds from issuing long-term debt (see Note 1)	10,347,321	-	-	-	10,347,321	-
Refunding bond surplus rebate	-	-	-	-	-	-
Capital grants received	22,956	-	-	-	22,956	-
Equity transfers out	-	-	-	-	-	-
Equity transfers in	-	-	-	-	-	-
Operating transfers in	-	-	-	-	-	-
Tax receipts for capital construction	-	-	-	-	-	-
Other receipts for capital construction	1,029,841	531,925	-	101,850	1,663,616	59,209
Proceeds from sale of capital assets	-	-	-	-	-	-
Payments for capital acquisitions	(13,920,440)	(697,010)	(39,333)	(170,522)	(14,827,305)	(693,146)
Interest paid	(283,000)	(240,006)	-	-	(523,006)	-
Bond Issuance Costs	(47,321)	-	-	-	(47,321)	-
Principal payments on bonds/notes	(755,000)	(644,751)	-	-	(1,399,751)	-
Transfers net	-	-	-	-	-	-
Principal payments on intergovernmental loans	-	-	-	-	-	-
Net cash used for capital and related financing activities	(3,605,642)	(1,049,842)	(39,333)	(68,672)	(4,763,489)	(633,937)

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

City of Anacortes
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2007

	Business-Type Activities					Governmental Activities
	Water Fund	Sewer Fund	Sanitation Fund	Other Enterprise Funds	Totals	Internal Service Fund
Cash flows from investing activities:						
Investments purchased	(6,014,745)	(55,186)	(661)	(514)	(6,071,106)	1,499,390
Receipts of interest and dividends	571,109	273,392	111,652	82,938	1,039,090	181,747
Net cash provided by investing activities	(5,443,636)	218,206	110,990	82,424	(5,032,016)	1,681,137
Net increase (decrease) in cash	(5,456,743)	257,001	247,069	(259,663)	(5,212,336)	1,534,956
Cash at beginning of year	7,647,397	4,176,411	2,321,102	1,708,963	15,853,872	2,140,166
Cash at end of year	\$2,190,654	\$4,433,411	\$2,568,171	\$1,449,300	\$10,641,536	\$3,675,122

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

Reconciliation of operating income to net cash provided by operating activities

Net operating income (loss)	\$ 1,129,190	\$ (176,921)	\$ 266,712	\$ (52,220)	\$ 1,166,761	\$ (23,291)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation/Amortization	970,598	1,403,999	22,455	64,124	2,461,176	430,636
Allowance for uncollectible accounts	-	-	-	-	-	-
Change in assets and liabilities:						
(Increase) decrease in accounts receivable	288,138	(79,463)	(82,969)	(16,258)	109,448	2,585
(Increase) decrease in deposits receivable	-	-	-	-	-	-
(Increase) decrease in due to/from other	178	(19)	(102)	-	57	(68)
(Increase) decrease in inventory	32,153	-	-	-	32,153	-
Increase (decrease) in accounts payable	1,189,425	12,030	(10,307)	12,682	1,203,830	7,429
Increase (decrease) in benefits payable	(91,727)	(69,403)	(20,377)	(16,744)	(198,250)	(14,350)
Non-operating income reported as operating	209,551	3,860	-	-	213,411	57,920
Non-operating expense reported as operating	(3,801)	(13,395)	-	-	(17,196)	28,643
Other	37,944	7,949	-	-	45,894	(1,748)
Total adjustments	2,632,460	1,265,558	(91,300)	43,805	3,850,523	511,047
Net cash provided by operating activities	\$ 3,761,649	\$ 1,088,637	\$ 175,412	\$ (8,415)	\$ 5,017,283	487,756

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, 2007

	Pension Trust	Private-Purpose	
	Funds	Trust Funds	Agency Funds
ASSETS			
Cash & cash equivalents	\$ 232,035	\$ 924,000	\$ 10,053
<i>Investments, at fair value:</i>			
U.S. Government securities		1,256,948	
Total investments	-	1,256,948	-
<i>Receivables:</i>			
Taxes	14,765	\$ 17,140	-
Total receivables	14,765	17,140	-
Total assets	246,800	2,198,088	10,053
LIABILITIES			
Accounts payable and accrued expenses	-	\$ -	4,000
Obligations under securities lending			
Pension and postemployment benefits payable	-		-
Refunds payable	-	-	6,053
Other liabilities	14,765	\$ -	-
Total liabilities	14,765	-	10,053
NET ASSETS (Restated)			
Held in trust for:			
Pension benefits	232,035	-	-
Current assets			
Investment trust participants		\$ 2,198,088	-
Others			
TOTAL net assets	\$ 232,035	\$ 2,198,088	\$ -

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

City of Anacortes
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended December 31, 2007

	Pension Trust Funds	Private-Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer		
Plan members		
Taxes	\$ 22,693	\$ -
Grants and donations	14,444	307,798
Other		3,470
Total contributions	37,138	311,267
Investment earnings:		
Net Increase (decrease) in fair value of investments		
Interest & dividends	10,960	98,056
Real estate operating income (net)		
Securities lending income		
Other		
Total investment income	10,960	98,056
(Less investment expenses)		
(Securities lending expenses)		
Total net investment income (loss)	10,960	98,056
Participation in Investment Trust:		
Additions by participants		
Reinvested distributions		
(Withdrawals by participants)		-
Net increase (decrease) in participation	-	-
Total additions	48,098	409,323
DEDUCTIONS:		
Benefits	46,918	
Health care payments		
Refunds of contributions		
Administrative expenses		664
Payments in accordance with trust agreements		
Distributions to investment trust participants		
Total deductions	46,918	664
Change in net assets	1,180	408,659
Net assets--beginning	230,854	1,789,429
Net assets--ending	\$ 232,034	\$ 2,198,088

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

City of Anacortes Notes to Financial Statements

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 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.

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.

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.

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.

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, 2007, the treasurer was holding \$25,072,966 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.

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, 2007 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.” A separate schedule of interfund loans receivable and payable is furnished in Note 15.

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.

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. All unused sick leave is lost upon termination, except for commissioned police employees, according to their bargaining agreement, who 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.

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, 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 or investments.

The City's deposits and certificates of deposit 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 a 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.

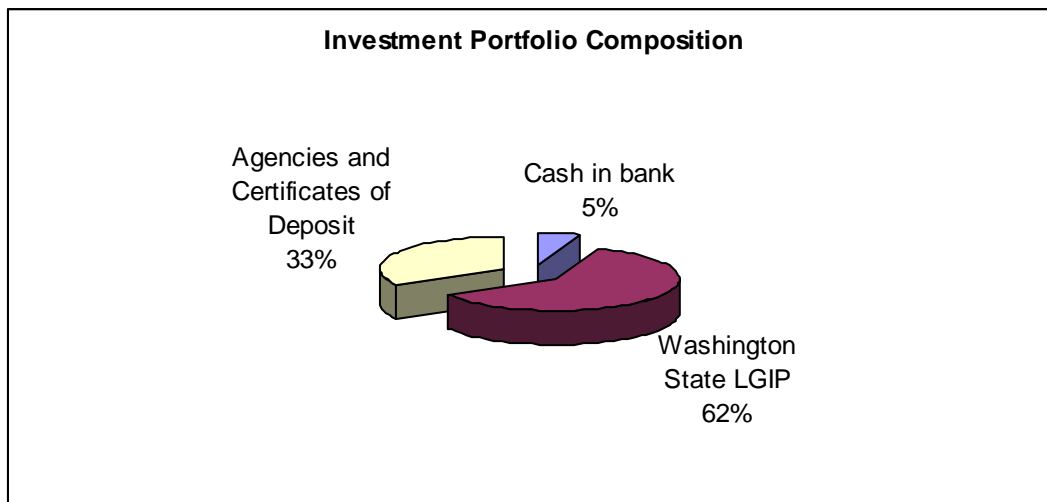
<u>Investment</u>	<u>Maturities</u>	<u>Call</u>	<u>Fair Value</u>	<u>Duration</u>
Cash in bank	1	None	\$ 2,034,943.82	
Local Govt Investment Pool, Treasurer's Surplus #060	Less than 1 year (approximately 35 days)	None	16,354,587.12	
Local Govt Investment Pool, Bond Reserve Restricted #061	Less than 1 year (approximately 35 days)	None	6,249,102.55	
Local Govt Investment Pool, Proprietary Fund Restricted #062	Less than 1 year (approximately 35 days)	None	434,333.28	
<u>Forestland Endowment Fund Portfolio</u>				
FHLB	2/12/2008	None	250,078.13	0.12
FHLMC	11/3/2008	None	251,610.50	0.81
FFCBC	3/24/2009	None	505,937.50	1.18
FNMA	3/26/2010	03/26/08	250,781.25	0.24
<u>Treasurer's Fund Portfolio</u>				
FHLB	2/12/2008	None	750,234.38	0.24
FHLB	3/28/2008	None	500,468.75	0.12
FFCBC	3/24/2009	None	1,011,875.00	1.18
FNMA	10/2/2009	None	1,023,750.00	1.66
FNMA	12/15/2009	None	2,039,375.00	1.86
FHLB	11/28/2008	5/28/2008	1,001,250.00	0.40
FHLB	11/6/2009	11/6/2008	2,009,375.00	0.82
FNMA	3/26/2010	03/26/08	752,343.75	0.24
FHLMC	10/1/2010	10/1/2008	1,006,570.00	0.73
FHLMC	10/1/2008	10/1/2008	1,006,570.00	0.73
Total			<u>\$ 37,433,186.03</u>	

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 purchased by the City are delivered to a third party, DA Davidson, commonly known as third party safekeeping.

With Credit Exposure as a Percentage of Total Investments

<u>Investment Type</u>	<u>Standard and Poor's Rating</u>	<u>Percentage of Portfolio</u>
Federal Home Loan Bank	AAA	14.98%
Federal National Mortgage Association	AAA	8%
Federal Home Loan Mortgage Corporation	AAA	6.13%
Federal Farm Credit Bank	AAA	4.08%
Local Government Investment Pool	Not Rated	66.66%

The City diversifies its investments by security type. With the exception of U.S. Treasury securities and the Washington State Local Government Investment Pool, no more than 50% of the City's total investment portfolio will be invested in a single security type.



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, subject to two limitations:

- Washington State law in RCW 84.55.010 limits the growth of regular property taxes to 6 percent per year, after adjustments for new construction. If the assessed valuation increases by more than 6 percent due to revaluation, the levy rate will be decreased.
- The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.

The City's regular levy for 2007 was \$1.5082 per \$1,000 on an assessed valuation of \$2,518,441,447 for a total regular levy of \$3,798,315.

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 2007 is \$0.1907 per \$1,000 on an assessed valuation of \$2,484,388,412 for a total special levy of \$473,773.

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

	Restated Balance 1/1/2007	Increases	Decreases	Balance 12/31/2007
Governmental Activities				
<u>Assets not being depreciated</u>				
Land (a)	47,852,450	237,964	-	48,090,414
Construction in Progress	5,259,288	723,260	4,727,468	1,255,080
Total not being depreciated	53,111,738	961,223	4,727,468	49,345,493
<u>Depreciated Assets</u>				
Buildings & Structures Improvements & Infrastructure (b)	13,658,433	-	-	13,658,433
Machinery & Equipment	26,995,382	6,599,031	-	33,594,413
	1,181,488	15,713	-	1,197,201
Total being depreciated	41,835,303	6,614,744	-	48,450,047
<u>Less accumulated depreciation for:</u>				
Buildings & Structures Improvements & Infrastructure (c)	2,281,116	286,383		2,567,499
Machinery & Equipment	14,011,606	808,992		14,820,598
	994,107	32,477		1,026,584
Total accumulated depreciation	17,286,829	1,127,852	-	18,414,681
Total assets being depreciated, net	24,548,474	5,486,892	-	30,035,366
Governmental activities assets, net	77,660,212	6,448,115	4,727,468	79,380,860

	Balance 1/1/2007	Increases	Decreases	Balance 12/31/2007
Business-Type Activities				
<u>Assets not being depreciated</u>				
Land	1,633,159	-	-	1,633,159
Construction in Progress	4,392,474	14,780,281	645,705	18,527,050
Total not being depreciated	6,025,633	14,780,281	645,705	20,160,209
<u>Depreciated Assets</u>				
Buildings & Structures	11,240,048	-	-	11,240,048
Improvements & Infrastructure (1)	73,383,676	422,238	-	73,805,914
Machinery & Equipment	22,223,068	918,390	129,894	23,011,564
Total being depreciated	106,846,792	1,340,628	129,894	108,057,526
<u>Less accumulated depreciation for:</u>				
Buildings & Structures	3,738,549	222,713	-	3,961,262
Improvements & Infrastructure (1)	23,082,694	1,551,604	-	24,634,298
Machinery & Equipment (1)	16,227,735	1,117,495	123,494	17,221,736
Total being depreciated	43,048,978	2,891,812	123,494	45,817,296
Total assets being depreciated, net	63,797,814	(1,551,184)	6,400	62,240,230
Business-Type activities assets, net	69,823,447	13,229,097	652,105	82,400,439

(a) beginning balance restated by \$40,618,239 to accommodate GASB 34 infrastructure additions

(b) beginning balance restated by \$16,997,538 to accommodate GASB 34 infrastructure additions

(c) beginning depreciation restated by \$12,025,301 to accommodate GASB 34 infrastructure additions

(1) beginning balance restated

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

Governmental Activities	
Judicial	\$ 1,559
General Government	71,772
Public Safety	174,340
Buildings & Facilities	54,200
Transportation	117,811
Economic Environment	247,060
Culture & Recreation	461,109
	<hr/>
Total Depreciation - Governmental Activities	<u>\$ 1,127,852</u>

Business Type Activities	
Utilities	\$ 2,701,899
Equipment Rental	189,913
	<hr/>
Total Depreciation - Business-Type Activities	<u>\$ 2,891,812</u>

Accumulated depreciation on propriety fund assets at December 31, 2007 is as follows:

	Enterprise Funds	Internal Service Funds	Totals
Buildings & Structures	\$ 3,642,744	318,518	3,961,262
Improvements & Infrastructure	24,577,614	56,684	24,634,298
Machinery & Equipment	12,790,748	4,430,988	17,221,736
			<hr/>
Total	<u>\$ 41,011,106</u>	<u>\$ 4,806,190</u>	<u>\$ 45,817,296</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.

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. 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. If qualified, after reaching age 66, a cost-of-living allowance is granted based on years of service credit and is capped at three percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at 55 with 20 years of service, with an allowance of two percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle consumer Price Index), capped at 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. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to September 1, 2003. Plan 3 retirements prior to age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same

cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

Judicial Benefit Multiplier

Beginning January 1, 2007 through December 31, 2007, judicial members of PERS may choose to participate in the Judicial Benefit Multiplier Program (JBM). Current justices or judges in PERS Plan 1 and 2 may 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 average financial compensation. Judges in PERS Plan 3 can 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 will accrue service credit at the higher multiplier beginning with the date of their election, 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 will: 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.

Justices and judges who are newly elected or appointed to judicial service and choose to become PERS members on or after January 1, 2007, or who have not previously opted into PERS membership, are required to participate in the JBM Program.

Justices and judges who are newly elected or appointed to judicial service will: 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 1,188 participating employers in PERS Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2006:

Retirees and beneficiaries receiving benefits: 70,201
Terminated plan members entitled to but not yet receiving benefits: 25,610
Active plan members vested: 105,215
Active plan members non-vested: 49,812
Total: 250,838

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates and 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 employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to

determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2007, were as follows:

Members not participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	6.13%**	6.13%**	6.13%***
Employee	6.00%****	4.15%****	*****

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

**The employer rate for state elected officials is 9.12% for Plan 1 and 6.13 for Plan 2 and Plan 3.

***Plan 3 defined benefit portion only.

****The employee rate for state elected officials is 7.50% for Plan 1 and 4.15 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*	8.63%	8.63%	8.63%**
Employer-Local Govt.*	6.13%	6.13%	6.13%
Employee-State Agency	9.76%	7.88%	7.50%***
Employee-Local Govt.	12.26%	10.38%	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, 2007 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2007	\$30,182	\$296,961	\$64,971
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. Membership in the system includes all full-time, fully compensated, local law enforcement officers and fire fighters. 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. In addition, effective July 24, 2005, current members of PERS who are emergency medical technicians can elect to become members of LEOFF Plan 2. LEOFF Participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 Plan 2 members. Effectively July 1, 2003, the LEOFF Plan 2 Retirement Board was established to provide governance of

LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan. Effectively January 1, 2003 firefighter emergency medical technicians (EMTs) may transfer PERS Plan 1 or Plan 2 service credit to LEOFF Plan 2 if while employed for the city, town, county or district, the EMT's job was relocated to a fire department from another city, town, county or district. LEOFF defined benefits are financed from a combination of investment earnings, 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 member are eligible to retirement 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 final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped a 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

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

There are 383 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2006:

Retirees and beneficiaries receiving benefits: 8,951
 Terminated plan members entitled to but not yet receiving benefits: 602
 Active plan members vested: 12,711
 Active plan members non-vested: 3,603
 Total: 25,867

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 Plan 1 and 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 methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2007 were:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.35%**
Employee	0.00%	8.64%
State	N/A	3.45%

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

**The employer rate for ports and universities is 8.80%.

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
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, 2007 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.

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 2007 were as follows:

Annual Required Contribution (ARC)
Amortization of Unamortized Actuarial Liability: \$45,261
Annual Required Contribution: \$45,261

Employer Contributions Made: \$36,941
Net Change in Net Pension Obligation: \$8,413
Net Pension Obligation beginning of year: (\$4,180)
Net Pension Obligation end of year: \$4,233

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
Liberty Insurance Underwriters	Commercial Marine Policy (Police Patrol Boat)	\$2,500 hull/ \$250 trailer \$5,000 liability (P&I)
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	\$250
Hartford Fire Insurance Company	Flood Insurance	\$5,000
Superior Underwriters	W.T Preston- Sternwheel Drydocked	\$5,000

NOTE 9 - SHORT-TERM DEBT

SHORT TERM DEBT

The City of Anacortes as of December 31, 2007 does not have any short term debt other than interfund loans, disclosed in Note 15, Interfund Transfers and Balances.

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.

Special Assessment Bonds are not a direct responsibility of the City, but are funded from the collection of special assessment payments. Debt service principal and interest costs are paid from the LID Debt Service Funds. The City is obligated for special assessment debt to the extent that it is required to establish a guaranty fund, for the purpose of guaranteeing the payment of local improvement bonds and warrants, in the event there are insufficient funds in the LID Debt Service Funds. The Guaranty Fund is funded from interest income and surplus from the LID Debt Service Funds, and is currently sufficient to cover all LID debt.

State of Washington Public Works Trust Fund Loans are a direct responsibility of the City. Anacortes currently has four such loans, two of which aided in construction of the City's Wastewater Treatment Plant completed in 1992. These loans will be repaid from sewer revenues. The third loan was for Anaco Beach Road improvements and the fourth 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.

2000 General Obligation Bonds: Voter-approved general obligation bonds for the purpose of constructing and equipping a new public library on the site of the existing library.

1999 General Obligation Refunding Bonds: Issued to re-finance the 1992 GO Bonds by the regular (defeasance) advance refunding method at a lower rate of interest reducing annual debt service payments.

1999 General Obligation Bonds: Issued to construct a new public safety building to house the police department, emergency services support personnel and the municipal court. (Councilmanic)

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.

Special Assessment Debt with Governmental Commitment Bonds, Issuances, Redemptions and Balances Outstanding

Debt service requirements for special assessment bonds are met by assessments levied against property owners. At December 31, 2007 there were no outstanding assessments.

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

	Issue Date	Maturity Date	Interest Rate	Original Amount Issued	Redemptions to Date	Bonds Outstanding 12/31/07
2005 GO Refunding	8/8/2005	12/1/2020	3.0 to 4.1%	\$4,360,000	\$130,000	\$4,230,000
2000 GO Bonds	7/5/2000	12/1/2010	5.38 to 5.45%	\$6,050,000	\$5,245,000	\$805,000
1999 GO Refunding	6/24/1999	12/1/2012	3.4 to 4.75%	1,490,000	\$850,000	640,000
1999 GO Bonds	6/24/1999	12/1/2018	3.5 to 5.1%	2,050,000	\$340,000	1,710,000
TOTAL GO BONDS				\$13,950,000	\$6,565,000	\$7,385,000

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

Year Ending	Governmental Activities	
	Principal	Interest
December 31		
2008	465,000	321,551
2009	485,000	298,810
2010	510,000	274,760
2011	535,000	249,323
2012	555,000	227,455
2013-2017	3,160,000	768,363
2018-2022	1,675,000	128,280
Total	\$7,385,000	\$2,268,542

Revenue Bonds, Issuances, Redemption, and Balances Currently Outstanding

	Issue Date	Maturity Date	Interest Rate	Original Amount Issued	Redemptions to Date	Bonds Outstanding 12/31/07
2003 Wastewater Refunding	10/30/2003	11/1/2013	4.0 to 5.0%	6,295,000	2,205,000	\$4,090,000
2007 Water Revenue	5/21/2007	12/1/2026	4.0 to 5.5%		755,000	
Total Revenue Bonds				13,400,000		12,645,000
				\$19,695,000	\$2,960,000	\$16,735,000

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

Year Ending 31-Dec	Business-Type Activities	
	Principal	Interest
2008	1,175,000	743,612
2009	1,220,000	693,562
2010	1,280,000	641,587
2011	1,330,000	587,062
2012	1,380,000	526,913
2013-2017	3,800,000	1,862,288
2018-2022	3,765,000	1,100,578
2023-2026	2,785,000	308,325
Total	\$16,735,000	\$6,463,926

At December 31, 2007 the City had \$1,753,650 available to service the General Obligation Bonds. Additionally, there was \$2,334,773 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.

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 \$4,649.04 for the year ended December 31, 2007. The future minimum lease payments for this lease is as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2008	\$14,400
2009	\$14,400

The City of Anacortes estimates the permanent Fire Station #3 to be complete by the end of 2009 per the City of Anacortes Capital Facilities Plan.

The City has no capital leases as of December 31, 2007.

NOTE 12 – CHANGES IN LONG TERM LIABILITES

During the year ended December 31, 2007 the following changes occurred in long-term liabilities:

Governmental Activities	Beginning Balance 01/01/07	Additions	Reductions	Ending Balance 12/31/07	Due Within One Year
Bonds payable:					
GO/Special Assessment	\$7,830,000	0	\$445,000	\$7,385,000	\$465,000
Issuance Discounts / Premiums	-427,500		-22,500	-405,000	
Compensated Absences	573,043	113,954		686,997	686,997
PWTF Loans	152,193		21,378	130,815	21,378
Governmental activity long-term liabilities:	<u>\$8,127,736</u>	<u>\$113,954</u>	<u>\$443,878</u>	<u>\$7,797,812</u>	<u>\$1,173,375</u>
<hr/>					
Business-Type Activities					
Bonds payable					
Revenue Bonds	\$8,590,000	\$13,400,000	\$5,255,000	\$16,735,000	\$1,175,000
Issuance Discounts / Premiums	-455,433		-183,779	-271,654	
Compensated Absences	336,556		198,249	138,307	138,307
PWTF/CERB Loans	\$737,604		59,751	677,853	60,824
Business-type activity long-term liabilities	<u>\$9,208,727</u>	<u>\$13,400,000</u>	<u>\$5,329,221</u>	<u>\$17,279,506</u>	<u>\$1,374,131</u>

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 \$10,730 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.

NOTE 14 – RESTRICTED NET ASSETS

The government-wide statement of net assets reports \$3,048,841 of restricted net assets, of which \$3,048,841 is restricted by enabling legislation.

NOTE 15 - INTERFUND TRANSFERS AND BALANCES

Loans between funds are classified as interfund loans receivable and payable. The following table displays internal balances as of December 31, 2007.

Receivable Fund	Amount	Payable Fund	Amount
Water Fund	356	LID# 205 Bond Service	356

Transfers Out		Transfers In	
Fund	Amount	Fund	Amount
General	35,000	General	-
Street		Street	2,452,000
Water	180,000	Water	
Storm	265,000	Storm	-
Non Major	2,560,500	Non Major	588,500
Total	3,040,500		3,040,500

Interfund transfers are used primarily to move unrestricted revenues to finance various programs that the city must account for in other funds in accordance with budgetary authorizations, such as transfers of Real Estate Excise Taxes and Impact Fees.

NOTE 16 – RECEIVABLES & PAYABLES

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

NOTE 17 - SEGMENT INFORMATION

The City operates four utilities, which provide water, sewer, storm drainage, and sanitation utility services. These funds are financed primarily through user charges. It is management's intention to maintain adequate rate structures to sustain the future operations of its enterprise funds.

Segment information for the year ended December 31, 2007 is as follows:

Condensed Statement of Net Assets	Water	Sewer	Other Enterprise Funds	Total
Assets				
Current Assets	-267,556	2,603,470	3,330,104	5,666,018
Capital Assets	44,270,232	27,541,341	8,040,564	79,852,137
Other Assets	7,677,232	3,408,677	912,851	11,998,760
Total Assets	51,679,908	33,553,488	12,283,519	97,516,915
Liabilities				
Current Liabilities	2,047,126	1,534,399	148,171	3,729,696
Long-term Liabilities	12,080,000	3,480,000	-	15,560,000
Other Liabilities	76,864	-348,518	-	-271,654
Total Liabilities	14,203,990	4,665,881	148,171	19,018,042
Net Assets				
Restricted Bond Covenant	1,595,709	1,055,804	-	2,651,513
Unrestricted	11,695,889	-987,096	3,556,343	14,265,136
Invested in Capital net of debt	24,184,320	28,818,898	8,579,006	61,582,224
Total Net Assets	37,475,918	28,887,606	12,135,349	78,498,873
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets				
Charges for Service		3,772,071	2,673,618	13,207,734
	6,762,045			
Operating Expenses	4,662,258	2,544,993	2,372,547	9,579,798
Depreciation, Amortization	970,598	1,403,999	86,579	2,461,176
Total Expenses	5,632,856	3,948,992	2,459,126	12,040,974
Operating Income (net)	1,129,189	-176,921	214,492	1,166,760
Non-operating income (expense)	194,001	-36,237	193,414	351,178
Contributions and Transfers	15,225	531,925	-163,150	384,000
Change in Net Assets	1,338,415	318,767	244,756	1,901,938
Net Assets-beginning	36,137,502	28,568,840	11,890,593	76,596,935
Net Assets-ending	37,475,917	28,887,607	12,135,349	78,498,874
Condensed Statement of Cash Flows				
Cash Flow provided by:				
Operating Activities	3,761,649	1,088,637	166,997	5,017,283
Noncapital Financing Activities	-169,114	-	-265,000	-434,114
Capital and Related Financing	-3,605,642	-1,049,842	-108,005	-4,763,489
Investing Activities	-5,443,636	218,206	193,414	-5,032,017
Net increase (decrease) in Cash	-5,456,744	257,001	-12,594	-5,212,337
Beginning Cash and Equivalents	7,647,397	4,176,411	4,030,065	15,853,873
Ending Cash and Cash Equivalents	2,190,654	4,433,411	4,017,471	10,641,536

NOTE 18 – JOINT VENTURES

The City does not have any joint ventures as of December 31, 2007.

NOTE 19 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

Post-employment Benefits

In addition to the pension benefits described in Note 7, the City of Anacortes provides postretirement health care benefits, in accordance with RCW 41.26.150 to retired LEOFF I employees. Currently, there are three active employees and nineteen retirees that meet the eligibility requirements. 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 also reimburses a fixed amount of \$93.50 per month for a Medicare supplement for each retiree eligible for Medicare and \$115.70 for one individual.

Employer contributions are financed by monthly contributions from the General Fund expenditure account to the Interfund Medical Insurance premium revenue account to cover premiums. There is no reserve specifically for OPEB. The City pays the insurance premiums for pre-Medicare and Medicare retirees to an HMO for medical and hospitalization coverage. In addition the City pays premiums for long-term care insurance. Expenditures for post-retirement uninsured portions of medical and hospitalization coverage and vision care benefits are recognized as retirees report claims. During the year, expenditures of \$234,245 were recognized for post-retirement health care.

Post-employment Benefit (OPEB) Plans

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.

City of Anacortes
Budgetary Comparison Schedule
General Fund and Arterial Street Fund
For the Year Ended December 31, 2007

	General Fund 001				Arterial Street Fund 105				
	Budgeted Amounts		Actual Amounts		Budgeted Amounts		Actual Amounts		Variance Favorable (Un)
	Original	Final	Budgetary Basis	Budgetary Basis	Original	Final	Budgetary Basis	Budgetary Basis	
Budgetary Fund Balance,	\$ 56,996	\$ 111,196	\$ -	\$ -	\$ (192,988)	\$ (192,988)	\$ -	\$ -	\$ -
Resources (Inflows):									
Taxes	6,584,797	6,584,797	7,277,832	693,035	100,000	100,000	268,504	168,504	
Licenses and Permits	502,793	502,793	423,938	(78,855)	-	-	-	-	
Fines and Forfeitures	156,000	173,000	111,843	(61,157)	-	-	-	-	
Charges for Goods & Services	564,559	564,559	203,948	(360,611)	25,000	25,000	-	(25,000)	
Intergovernmental Revenues	238,077	238,077	316,712	78,635	216,843	216,843	734,952	518,109	
Miscellaneous	2,363,064	2,363,064	522,645	(1,840,419)	-	-	-	-	
Interest	386,300	386,300	422,630	36,330	-	-	-	-	
Transfers from Other Funds	5,000	5,000	-	(5,000)	1,352,000	2,473,800	2,452,000	(21,800)	
Amounts Available for Appropriation	10,800,590	10,817,590	9,279,548	(1,538,042)	1,693,843	2,815,643	3,455,456	639,813	
Charges to Appropriations (Outflows)									
General Government	5,147,804	5,184,004	2,440,540	2,743,464	-	-	-	-	
Public Safety	4,482,395	4,482,395	4,386,350	96,045	-	-	-	-	
Public Works	146,498	146,498	145,416	1,082	1,500,855	2,622,655	2,426,814	195,841	
Health and Human Services	49,415	49,415	56,495	(7,080)	-	-	-	-	
Culture and Recreation	332,638	332,638	332,400	238	-	-	-	-	
Economic Environment	698,836	698,836	669,067	29,769	-	-	-	-	
Nondepartmental Contingency	-	35,000	35,000	-	-	-	2,292	(2,292)	
Total Charges to Appropriations	10,857,586	10,928,786	8,065,268	2,863,518	1,500,855	2,622,655	2,429,106	193,549	

PENSION FUND

SCHEDULE OF FUNDING PROGRESS

December 31, 2007

(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, 2007

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	**22,497	**36,941	(45,261)	** (82)%

* 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.

** Based upon information as of December 20, 2007

TREND INFORMATION

December 31, 2007

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	81%*	4,233*

* Based upon information as of December 20, 2007

See accompanying notes 7 and 19 to the financial statements

To obtain a copy of the full, stand-alone 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 has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular 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. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

The results of our audits are widely distributed through a variety of reports, which are available on our Web site. 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 program to coordinate audit efficiency and to ensure high-quality audits.

State Auditor
Chief of Staff
Chief Policy Advisor
Director of Administration
Director of State and Local Audits
Director of Performance Audit
Director of Special Investigations
Director for Legal Affairs
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free hotline for government efficiency

Brian Sonntag, CGFM
Ted Rutt
Jerry Puggetti
Doug Cochran
Chuck Pfeil, CPA
Linda Long, CPA, CGFM
Jim Brittain, CPA
Jan Jutte
Mike Murphy
Mindy Chambers
Mary Leider
(360) 902-0370
(866) 902-3900

Web Site

www.sao.wa.gov