

**Washington State Auditor's Office**  
**Financial Statements Audit Report**

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**City of Moses Lake**  
**Grant County**

Audit Period  
**January 1, 2010 through December 31, 2010**

**Report No. 1006043**

Issue Date  
**July 26, 2011**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

July 26, 2011

City Council  
City of Moses Lake  
Moses Lake, Washington

***Report on Financial Statements***

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

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

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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Grant County  
January 1, 2010 through December 31, 2010**

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

**City of Moses Lake  
Grant County  
January 1, 2010 through December 31, 2010**

City Council  
City of Moses Lake  
Moses Lake, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Moses Lake, Grant County, Washington, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 20, 2011.

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.

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

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

## **COMPLIANCE AND OTHER MATTERS**

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

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

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

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

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

June 20, 2011

# **Independent Auditor's Report on Financial Statements**

**City of Moses Lake  
Grant County  
January 1, 2010 through December 31, 2010**

City Council  
City of Moses Lake  
Moses Lake, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Moses Lake, Grant County, Washington, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed on page 5. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Moses Lake, as of December 31, 2010, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Street funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 6 through 18, information on pension trust fund on page 70 and infrastructure modified approach on pages 71 through 73 are not a

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

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

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

June 20, 2011

# **Financial Section**

## **City of Moses Lake Grant County January 1, 2010 through December 31, 2010**

### ***REQUIRED SUPPLEMENTAL INFORMATION***

Management's Discussion and Analysis – 2010

### ***BASIC FINANCIAL STATEMENTS***

Statement of Net Assets – 2010  
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### ***REQUIRED SUPPLEMENTAL INFORMATION***

Pension Trust Fund – 2010  
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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Moses Lake, we offer readers of the City of Moses Lake's financial statement this narrative overview and analysis of the financial activities of the City of Moses Lake for the fiscal year ended December 31, 2010. The information presented here should be read in conjunction with additional information that we have furnished in our letter of transmittal, the financial statements and notes to the financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars and are rounded to the nearest thousand.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Moses Lake exceeded its liabilities at the close of the most recent fiscal year by \$127,550 (net assets). Of this amount, \$17,732 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$5,487.
- As of the close of the current fiscal year, the City of Moses Lake's governmental funds reported combined ending fund balances of \$3,002, a slight increase from the prior year. Almost the entire amount, \$2,474, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$650, or 3.9% of total general fund expenditures

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Moses Lake's basic financial statements. The City of Moses Lake's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

The **statement of activities** presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the

underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the City of Moses Lake that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Moses Lake include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Moses Lake include a water and sewer utility, sanitation, storm water, ambulance and airport.

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

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

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

The City of Moses Lake maintains fifteen individual governmental funds. The City's only major governmental fund as determined by GASB criteria is the general fund. For reporting purposes the city has elected to present the street fund as a major fund. The general fund and street fund are presented separately in the governmental funds balance sheet, and the governmental funds statement of revenues, expenditures, and changes in fund balances. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Moses Lake adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** The City of Moses Lake maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Moses Lake uses enterprise funds to account for its water and sewer utility, sanitation, storm water, ambulance, and airport operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Moses Lake's various functions. The City of Moses Lake also uses internal systems to account for its fleet of vehicles, self insurance, unemployment programs, building services, and computer services. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer utility, sanitation, storm water, ambulance and airport as all are considered to be major funds of the City of Moses Lake. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements.

The storm water fund was added in 2009 as a result of the City being included in the Phase II Storm Water category by the Department of Ecology. Because the City discharges a portion of their storm water into the lake we are mandated to clean our catch basins and sweep our streets more often as well as prepare reports, add treatment systems if necessary and require a new storm water construction permit on certain projects. Due to the added cost the city instituted a new utility fee in 2010 to cover the added payroll and operating costs associated with the new requirements.

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

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

**Other information.**

**Required Supplemental Information.** In addition to the basic financial statements and the accompanying notes this report also presents certain required supplementary information concerning infrastructure assets reported using the modified approach and pension plan funding.

The required supplementary information immediately follows the notes to the financial statements in the Basic Statements section of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Moses Lake, assets exceeded liabilities by \$127,550 at December 31, 2010.

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$8,884	\$4,761	\$14,696	\$13,910	\$23,581	\$18,671
Capital assets	68,572	64,008	69,930	69,506	138,501	133,514
Total assets	<u>77,456</u>	<u>68,769</u>	<u>84,626</u>	<u>83,416</u>	<u>162,082</u>	<u>152,185</u>
Long-term liabilities	14,991	10,518	14,848	15,748	29,839	26,266
Other liabilities	3,015	2,256	1,679	1,600	4,694	3,856
Total liabilities	<u>18,006</u>	<u>12,774</u>	<u>16,527</u>	<u>17,348</u>	<u>34,532</u>	<u>30,122</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	53,837	54,497	54,876	53,585	108,713	108,082
Restricted	294	333	811	854	1,105	1,187
Unrestricted	5,319	1,165	12,412	11,629	17,732	12,794
Total net assets	<u>\$59,450</u>	<u>\$55,995</u>	<u>\$68,100</u>	<u>\$66,068</u>	<u>\$127,550</u>	<u>\$122,063</u>

The largest portion of the City of Moses Lake's net assets (85.2 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Moses Lake uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Moses Lake's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Moses Lake's net assets (.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$17,732) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Moses Lake is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The City's financial position for the year has improved and is expected to continue improving.

## Statement of Changes in Net Assets

The changes in net assets table indicates the increases or decreases in net assets of the city resulting from its operations. The City's total net assets, before prior period adjustments, increased by \$5,069 in 2010. The increase after transfers was split among governmental (\$3,032) and business-type activities (\$2,037). Prior period adjustments increased governmental net assets by a modest \$419. Detail of the prior period adjustment can be found in Note 16 to the financial statements.

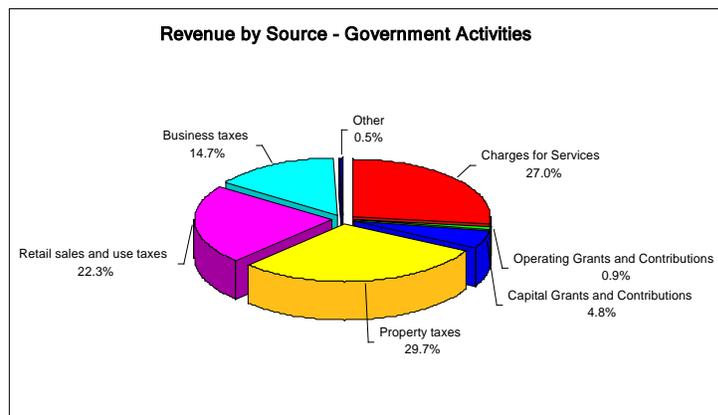
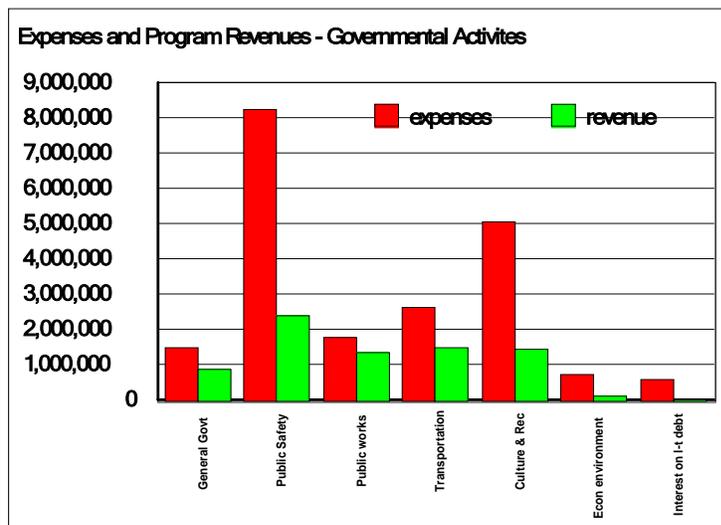
The following is a summarized version of the city's changes in net assets. The table shows the revenues, expenses, and related changes in net assets in table form for the governmental activities autonomous from the business-type activities for 2010.

### City of Moses Lake Changes in Net Assets

	Governmental Activities		Business-ty Activities		Total	
Revenues:						
Program revenue:						
Charges for services	\$6,405	\$6,231	\$13,970	\$12,573	\$20,375	\$
Operating grants and contributions	209	237	-	-	209	2
Capital grants and contributions	1,149	2,702	790	3,462	1,939	6
General revenue						
Property taxes	-	-	-	-	-	-
Sales taxes	5,288	5,633	-	-	5,288	5
business taxes	3,489	3,491	-	-	3,489	3
Other taxes	-	-	-	-	-	-
Other	188	271	24	24	212	2
Total revenues	23,780	22,886	14,784	16,059	38,564	3
Expenses:						
General government	1,490	1,495	-	-	1,490	1
Public safety	8,250	8,083	-	-	8,250	8
Public works	1,787	1,895	-	-	1,787	1
Transportation	2,657	2,718	-	-	2,657	2
Culture & recreation	5,155	4,911	-	-	5,155	4
Economic environment	744	768	-	-	744	7
Interest on long-term debt	591	533	-	-	591	5
Water/sewer utility	-	-	7,192	7,129	7,192	7
Sanitation	-	-	2,952	2,025	2,952	2
Ambulance	-	-	2,306	2,125	2,306	2
Airport	-	-	35	100	35	1
Storm Water	-	-	336	-	336	-
Total expenses	20,674	20,403	12,821	11,379	33,495	3
Increase in net assets before transfers	3,106	2,483	1,963	4,680	5,069	7
Transfers	(74)	(134)	74	134	-	-
Increase in net assets	3,032	2,349	2,037	4,814	5,069	7
Net assets 01/01	55,999	53,650	66,063	61,249	122,062	1
Prior period adjustment change in reserves	419	-	-	-	419	-
Net assets 12/31	\$59,450	\$55,999	\$68,100	\$66,063	\$127,550	\$

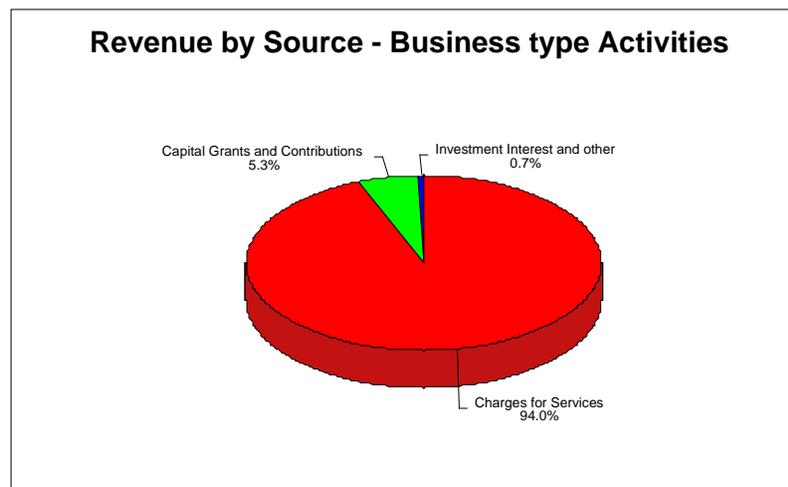
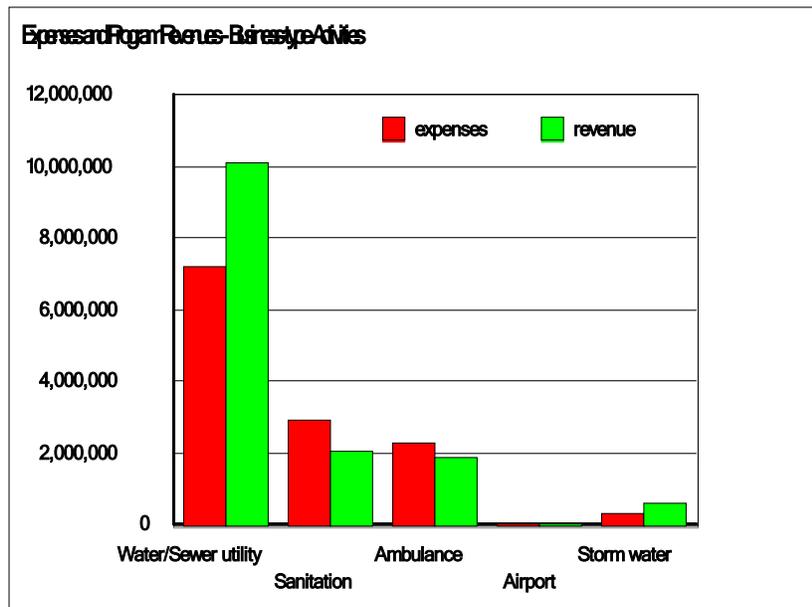
**Governmental activities.** Governmental activities increased the City of Moses Lake’s net assets by \$3,032. As shown in the Statement of Activities \$7,763 of the total cost was paid for by either those directly benefitting from the programs or by governments and organizations that subsidized certain programs through grants and contributions. Key elements of this increase are as follows:

- The largest revenue increase of \$2,731 was in property taxes, due largely to a single a major manufacturing facility that increased the city tax roll by \$1,822. The remaining increase was due to annexations and improvement/expansion of existing structures.
- Sales tax revenue decreased (\$345) for the year was a result of a continued decline in commercial and residential construction in and around the City from the down turn in the economy.
- The decline in capital grants (\$1,553) was attributable to a one time award in stimulus money (\$1,182) from the federal government for a 2009 street project.
- The large increase in public safety expense (\$167) is attributable to the addition of new police officers, increase in wages and medical benefits of fire and police personnel and an increase in equipment rental rates. The \$244 increase in culture expenses is also due to increases in rental rates and wages related to increased park and recreation programs.



**Business-type activities.** Total net assets of Business-type activities increased by \$2,037 for the year. Other than Ambulance when revenues decrease for a activity so did the related expenses and when revenues increased so did expenses. Key elements of the fluctuations are as follows.

- Increase (\$1,397) in charges for services is attributed mostly to the creation of a new Storm Water fund (\$606). There was annual rate increase in water/sewer rates for 2010 mandated by municipal code matching the increase in the Consumer Price Index. The remainder of the increase in utilities can be linked to rate changes, development charges, usage increase, and added customers from annexations.
- The increase in Sanitation expense is attributable to recycling and yard waste containers supplied to the customers (\$588) and increases in commercial usage from annexations over past years who's sanitation contract had expired in 2010.
- A new Storm water fund was added in 2010 that increased expenses by \$366.
- A \$181 increase in ambulance expenses is largely due to an increase (\$48) in building maintenance fees and (\$101) allocated labor costs.



## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

As of the end of the current fiscal year, the City of Moses Lake's governmental funds, which includes debt service funds, capital projects funds, and special revenue funds had an ending fund balances of \$3,002, an increase of \$181 in comparison with the prior year. Almost the entire amount constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period (\$176), for debt service payments (\$326) and a variety of other restricted purposes (\$25).

The General Fund is the chief operating fund of the City of Moses Lake. At the end of the current fiscal year, unreserved fund balance of the general fund was \$69 while the total fund balance was at \$801. The street fund is a special revenue fund, whose purpose is for the maintenance of streets and alleys, traffic control, and electrical street lighting had a unreserved fund balance of \$95 and a total balance of \$144.

The fund balance of the City of Moses Lake's General Fund increased by \$823 during the current fiscal year at the same time the Street Fund decreased \$41. Key factors in the changes are as follows:

- The street fund revenue from vehicle excise tax increased from the state and permits from construction were up \$71 and \$27 respectively while project expenditures were down (\$172) in anticipation of receiving less revenue from a slow economy.
- The net increase in property taxes (\$2,731), and water utility tax (\$60) greatly offset the decline of sales tax (\$302), gambling tax (\$82) and natural gas utility tax (\$29).
- The City established a reserve fund equal to 10 percent of the General Fund budgeted revenue, excluding the beginning fund balance. For 2010 the city placed \$581 in the reserve.
- Activity and program income was down (\$51) and reimbursable charges were up (\$65).
- The major increases in expenditures occurred in public safety with considerable jumps in rental rates for vehicles (\$247), hydrants (\$192), and facilities (\$193). Recreation also had a large increase in rental rates of vehicles (\$166) and facilities (\$264), which was attributable to the new Civic Center.

- The recession continues to curtail growth in the construction industry and as a result a reduction in building fees and permits persists (\$112).
- Banking rates remain at 70 year low generating reducing the City's interest earnings (\$84).

**Proprietary funds.** The City of Moses Lake's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The proprietary funds are those funds that account for government operations where the intent is for the costs to be paid primarily by user charges. Enterprise funds are those that provide services predominantly to external users and the internal service funds provide service principally to other governmental units or within the City. The funds consist of five enterprise funds, and five internal service funds.

Unrestricted net assets of the Water and Sewer Utility at the end of the year amounted to \$10,303, and those for the Sanitation Utility amounted to \$2,825. The total of the two funds accounted for 99% of the total net assets for all enterprise funds. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Moses Lake's business-type activities.

## **BUDGETARY HIGHLIGHTS**

### **Original compared to final budget**

The final revenue budget for the General Fund was only \$481 (2.7%) higher than the original budget. The street fund final revenue budget was \$80 higher (15%) and the expenditure budget was \$86 higher (5%) than the original. This was the result of budget amendments approved by City council during the year. The major budget changes are listed below.

- The \$241 increase in tax revenue in the General Fund was from increases in utility tax for electricity (\$90), water (\$63), telephone (\$65), and storm water (\$23).
- Charges for services for the general fund were higher for water park fees and museum retail sales, by \$73 and \$20 respectively.
- Increase in the street fund revenue were increases for licenses and permits of \$44 and \$27 for charge for services. Major expenditure increases were for roadway repairs and traffic control of \$55 and \$10 respectively.

### **Actual results compared to final budget**

General fund revenues came in over final amended budget by \$1,590 (9%) and expenditures under by \$ 536 (3%) respectively. Street fund had the same results with revenue of \$58 (10%) over and expenditures of \$53 (3%) under budget. Factors contributing to this outcome were:

- The street fund received \$53 more vehicle excise tax revenue from the state than was expected while project expenditures were lower by \$53 from lower than anticipated supply and contractor repair costs.

- Property taxes were \$1,880 higher due to the higher than anticipated assessed value from annexations and major improvements. This was countered by the \$253 in retail sales tax revenue difference.
- The variance in charges for services is attributable to extra revenue from resource officers (\$103), higher retail sales (\$165) and reimbursable charges (\$108) for intergovernmental activities.
- The difference in culture and recreation is a combination of lower wages (\$165), benefits (\$43) and operating supplies (\$84) which were anticipated to increase with added programs.
- Public safety had a decrease in costs related to traffic light and speed cameras (\$123) due to a switch in accounting procedures and lower wages and benefits (\$139) and reimbursable charges (\$125) paid by the fire department for work done by others. Conversely there was an increase in medical benefits (\$65) for the police department due to a switch in their coverage and (\$192) for first year charges of fire hydrant rent.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities, aquatic facilities, and streets . The total increase in the City of Moses Lake’s investment in capital assets for the current fiscal year was 3.7% (a 7.1% increase for governmental activities and only a .6% increase for business-type activities).

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

- Park improvements totaling \$342 were added in 2010.
- New equipment was purchased for \$1,099, which included an ambulance (\$149), sweeper (\$236), a Vac-Con (\$327), and numerous other vehicles.
- Two large street improvement projects totaling \$1,601 were completed during the year.
- Construction in Progress increased significantly due the building of the City Civic Center for a total of \$4,600.
- A sewer lining project was completed and pump house built for a total of \$929.

Additional information on the capital assets of the City of Moses Lake can be found in Note 6.

## City of Moses Lake's Capital Assets

(net of depreciation)

actual amounts

	Governor Activities	Business- Activities	Total
Land and land improvements	\$5,335,035	\$1,080,814	\$6,415,849
Buildings	17,690,763	25,577,806	43,268,569
Machinery and equipment	3,411,396	1,581,276	4,992,672
Infrastructure	37,197,187	40,904,966	78,102,153
Construction in progress	4,937,488	784,754	5,722,242
Total assets	\$68,571,868	\$69,929,615	\$138,501,483

**Infrastructure.** The City of Moses Lake has elected to use the modified approach as defined by GASB statement 34 for reporting its streets, alleys, bike paths, parking lots and bridges. The city has made a commitment to preserve and maintain the street infrastructure at an acceptable condition rather than recording depreciation. The rating scales for paved streets and bridges are further explained in the required supplementary information, which follows the notes to the basic financial statements.

The City's engineering department evaluates the condition that paved streets are kept based on a formula established by a street assessment program. The formula is calculated using 8 different criteria applied to all paved streets from one intersection to another. Among the criteria is depths and lengths of cracks, sags and humps, and patching. From the inputting of the information the system evaluates all criteria and produces a rating. The condition assessment is taken at least once every three years. The City has no set policy as to the level the streets are to be maintained. However, the City has a program where the streets have a crack seal process applied every six years to bring the condition of the street substantially up.

By definition the City has one bridge that it maintains. The portion that is under water is inspected every five years by the state Department of Transportation and documented in an inspection report given to and maintained by the City. The bridge is given a sufficiency rating, which is a numerical rating based on a 100 point scale. The rating is based on its structural adequacy and safety, load capacity, essentiality for public use, and its serviceability and functional obsolescence. Currently the one bridge carries a sufficiency rating of between 65 and 70. The city inspects and evaluates the remainder of the bridge above the water line using the pavement management system that is used for rating paved streets. The bridge has no load limits which substantiates its superior rating. Projected costs to maintain the bridge are included in the budgeted cost of the streets.

The City maintains an inventory of these infrastructure assets. With triennial assessments establishing the condition level of the assets, the City makes annual estimates of the cost to maintain its streets which are also reported in the City's annual Capital Improvement Program. For 2010 the City projected \$550 for road maintenance. The actual amount expended was \$859.

For the year there were no significant changes in the condition levels of the streets. With relatively mild weather patterns the condition level of the streets was maintained above the acceptable conditions for the City.

**Long-term debt.** At the end of the fiscal year, the City of Moses Lake had total bonded debt outstanding of \$21,025. Of this amount, \$14,150 comprises debt backed by the full faith and credit of the government and \$6,875 represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

City of Moses Lake's Outstanding Debt  
General Obligation and Revenue Debt  
(Actual Amounts)

	Governmental Activities	Business-type Activities	Total
General obligation debt	\$ 13,273,332	\$ 876,668	\$ 14,150,000
Revenue debt	-	6,875,000	6,875,000
	\$ 13,273,332	\$ 7,751,668	\$ 21,025,000

The City of Moses Lake's total bonded debt increased by a net \$4,990 (33%) over the prior fiscal year. The increase was due to \$5,925 of new debt for the construction of a new Civic Center and paying down \$935 on previous debt.

The City of Moses Lake maintains a "AAA" rating from Standard & Poor's by carrying Bond insurance. The Revenue Bonds are rated "A+" and the G.O. Bonds are rated "A-".

Washington State statutes limit the amount of general obligation debt a governmental entity may issue to 7.5% of its total assessed valuation, subject to a 60% majority vote of qualified electors. Of the 7.5% limit, 2.5% is for general purposes, 2.5% for open space/park facilities and 2.5% for utilities. Non-voted (limited tax) general obligation indebtedness is limited to 1.5% of assessed valuation. The combination of unlimited tax and limited tax general obligation debt for all purposes cannot exceed 7.5% of assessed valuation. The City's assessed valuation for 2010 was \$3,185,019 and the remaining debt capacity is as follows:

General	\$ 63,183,368
Open Space/Park Facilities	79,625,473
Utilities	79,625,473
Total	\$222,434,314

Additional information on the City of Moses Lake's long-term debt can be found in Note 9 of the notes to the financial statements.

## **ECONOMIC FACTORS AND THE NEXT YEAR'S BUDGETS AND RATES**

After dealing with a sluggish local economy for several years subsequent to the September 11, 2001 terrorist attacks, the city finally realized in mid-2005 some moderate growth in the economy. While this growth was sustained and advanced through 2007 and remains positive, the rate of growth began to slow in 2008, slowed further in 2009 and 2010, and will remain restrained through 2011. The restricted growth in the local economy is due primarily due to the state of the nation's economy.

Growth generally translates into greater revenues attributable in part to increased sales taxes, property taxes, permit fees, and the like. The City finds itself in a somewhat unique and fortunate situation. While the effect of the past national "great recession", as it has been termed, is felt by the City in reduced sales taxes and permitting fees, the real property taxes from industrial growth has covered the loss of those reduced sales tax receipts and even caused an overall increase in general government revenues. When the national economy grows again, the City anticipates sales taxes and permitting fees will rebound which will be extremely advantageous for the City.

With continued but restrained growth of the local economy, which is providing governmental revenue, at a previously unrealized rate, the City can anticipate providing services at the level now provided and perhaps increase those services in some areas. However, caution will be necessary because of the uncertain effects of the national economies. The aforementioned factors were considered in the preparation of the City's 2011 budget.

In reviewing the building activity in the local economy currently in progress and anticipated for the future, it is anticipated that the local economy will continue to improve in 2011 and perhaps for several years in the future, but at a slower rate, which supports the assumption that current service levels can be maintained and increased with caution. While some sectors have slowed, the City of Moses Lake continues to experience some building activity, contrary to the situation in many parts of the state and country.

Several industrial concerns in and around the City have announced, begun, or completed new projects or expansions. These expansions, additions, and new projects will result in added building activity, a short term influx of construction employment, and in the long term, add industrial jobs to the City's employment base. The expansion and/or new location of industry in and around the City will have a direct effect on the local economy and have an effect on building activity which will affect the City's property tax receipts. Eventually the added employment will result in additional population in and around the City which will affect retail sales and, therefore, the City's retail sales tax receipts.

Property tax increases have been limited by voter approved initiatives. However, gross property tax receipts have increased significantly because of annexations and new construction within the City. The City anticipates continued additional building activity in 2011. The building activity eventually will translate into a higher assessed valuation in the City which will generate additional property taxes up and above the statutory limitation on existing property taxation.

During the current fiscal year, the unreserved fund balance in the General Fund increased. This occurred because of an increase in revenues as previously mentioned. It is expected that the fund balances will be retained through 2011 and further increased. Except for a small allowed property tax increase, no other tax increases were included in preparing the 2011 budget.

While it is expected that future budgets may be limited by voter approved initiatives and legislation, which can reduce income to the City's General or Operating Fund, it is expected that some of the limitations experienced by the City will be tempered by continued economic development, primarily in the retail, industrial, and tourism sectors. All of the referenced factors were considered in preparing the City of Moses Lake's budget for the 2011 fiscal year.

The water and sewer utility rates were increased slightly, by the rate of inflation, for the 2011 budget year. These rate increases in 2011 assist in providing service at current levels.

The projected outlook for the City of Moses Lake and surrounding area remains positive as more building permits are issued and more larger industrial firms are moving into the area or expanding current facilities because of relatively inexpensive land and power costs.

### **Requests for Information**

This financial report is designed to provide a general overview of the City of Moses Lake's finances for all those with an interest in the governments finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 321 S. Balsam, PO Box 1579, Moses Lake, WA 98837.

**CITY OF MOSES LAKE**  
**Statement of Net Assets**  
**December 31, 2010**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 11,750,850	\$ 5,384,032	\$ 17,134,882
Cash with escrow agent	0	0	0
Receivables (net of allowances for uncollectibles)	1,415,675	1,672,546	3,088,221
Internal balances	-4,658,572	4,658,572	0
Inventories and prepaid items	248,993	584,809	833,802
Deferred charges	124,369	101,821	226,190
Restricted assets:			
Cash	0	2,211,960	2,211,960
Interest and other receivables	3,077	82,718	85,795
Capital assets (net of accumulated depreciation):			
Land and land improvements	5,335,035	1,080,814	6,415,848
Buildings and other improvements	17,690,763	25,577,806	43,268,569
Machinery and equipment	3,411,396	1,581,276	4,992,672
Infrastructure	37,197,187	40,904,966	78,102,152
Construction in progress	4,937,488	784,754	5,722,241
Total assets	<u>77,456,259</u>	<u>84,626,073</u>	<u>162,082,332</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	978,749	486,388	1,465,137
Accrued interest	132,259	146,223	278,482
Unearned revenues	200	1,214	1,414
Noncurrent liabilities:			
Due within one year	1,903,430	1,045,183	2,948,614
Due in more than one year	14,991,253	14,847,521	29,838,775
Total liabilities	<u>18,005,891</u>	<u>16,526,530</u>	<u>34,532,421</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	53,836,958	54,876,380	108,713,338
Restricted for:			
Debt service	0	810,836	810,836
Capital projects	0	0	0
Transportation	0	0	0
Other purposes	293,999	0	293,999
Unrestricted	5,319,411	12,412,327	17,731,738
Total net assets	<u>\$ 59,450,368</u>	<u>\$ 68,099,543</u>	<u>\$ 127,549,911</u>

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

**CITY OF MOSES LAKE**  
**Statement of Activities**  
**For the Year Ended December 31, 2010**

Functions/Programs Primary Government:	Net (Expense) Revenue and Changes in Net Assets					
	Program Revenues			Primary Government		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Government activities:						
General government	\$ 1,490,050	\$ 883,157	\$ 500	\$ 0	\$ -606,392	\$ 0
Public safety	8,250,244	1,955,918	157,300	310,518	-5,826,508	0
Public works	1,786,822	1,344,876	0	0	-441,945	0
Transportation	2,657,304	671,262	7,500	838,773	-1,139,770	0
Culture and recreation	5,155,333	1,409,773	43,302	0	-3,702,258	0
Economic Environment	743,863	139,878	0	0	-603,985	0
Interest on long-term debt	591,488	0	0	0	-591,488	0
Total governmental activities	20,675,104	6,404,865	208,603	1,149,290	-12,912,346	0
Business-type activities:						
Water/Sewer utility	7,192,446	9,354,264	0	770,266	0	2,932,084
Sanitation	2,952,147	2,073,684	0	0	0	-878,463
Ambulance	2,305,638	1,902,757	0	0	0	-402,881
Airport	35,141	33,403	0	0	0	-1,738
Storm Water	336,113	605,873	0	19,762	0	289,522
Total business-type activities	12,821,485	13,969,981	0	790,028	0	1,938,524
Total primary government	\$ 33,496,589	\$ 20,374,846	\$ 208,603	\$ 1,939,318	-12,912,346	1,938,524
General revenues:						
Property taxes					7,052,123	0
Retail sales and use taxes					5,288,180	0
Business taxes					3,489,277	0
Other taxes					0	0
Grants and contributions not restricted to specific programs					0	0
Investment earnings					186,950	24,032
Insurance recoveries					0	0
Intergovernmental revenue not restricted to specific programs					0	0
Increase in petty cash					0	0
Loss on sale of capital asset					0	0
Miscellaneous					1,054	0
Transfers, internal activities					-73,500	73,500
Total general revenues and transfers					15,944,085	97,532
Changes in net assets					3,031,739	2,036,056
Net assets - beginning					55,999,245	66,063,487
Prior Period adjustment					419,384	0
Changes in reserves					0	0
Net assets - ending					\$ 59,450,368	\$ 68,099,543

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

**CITY OF MOSES LAKE**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2010**

	<u>General</u>	<u>Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,088,161	\$ 182,686	\$ 1,977,339	\$ 4,248,185
Receivables (net of allowance for uncollectibles):				
Taxes	387,384	0	0	387,384
Assessments	0	0	42,838	42,838
Customer accounts	48,858	0	22,695	71,553
Unbilled services	17,983	0	10,759	28,742
Other receivables	514,964	547	0	515,511
Interfund loans receivable	0	0	0	0
Due from other governments	14,306	0	49,408	63,713
Prepays	108,262	49,172	0	157,434
Total assets	<u>3,179,916</u>	<u>232,405</u>	<u>2,103,039</u>	<u>5,515,359</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	110,098	73,789	21,383	205,270
Salaries and benefits payable	334,834	14,138	0	348,972
Due to other funds	0	0	0	0
Revenues collected in advance	200	0	0	200
Interfund loans payable	1,021,107	0	0	1,021,107
Deferred revenue	912,601	547	25,144	938,293
Total liabilities	<u>2,378,840</u>	<u>88,473</u>	<u>46,527</u>	<u>2,513,840</u>
Fund balances:				
Reserved for:				
Grants/donations	0	0	0	0
Debt service	0	0	326,546	326,546
Petty cash and prepaid expenses	126,387	49,172	0	175,559
Vacation/sick leave payouts	25,000	0	0	25,000
Unreserved designated, contingency	581,000	0	0	581,000
Unreserved, reported in:				
General fund	68,689	0	0	68,689
Special revenue funds	0	94,760	1,462,672	1,557,431
Capital projects funds	0	0	267,293	267,293
Total fund balances	<u>801,076</u>	<u>143,932</u>	<u>2,056,512</u>	<u>3,001,519</u>
Total liabilities and fund balances	<u>\$ 3,179,916</u>	<u>\$ 232,405</u>	<u>\$ 2,103,039</u>	<u>\$ 5,515,359</u>

**CITY OF MOSES LAKE**  
**Reconciliation of the Governmental Funds Balance Sheet to**  
**The Government-wide Statement of Net Assets**  
**December 31, 2010**

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Total Governmental Fund Balances \$ 3,001,519

Amounts reported for governmental activities in the government-wide statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds (exclusive of internal service funds' capital assets). 56,956,961

Other long-term assets are not available to be collected in current period revenues and therefore are deferred in the funds. 936,802

Internal service funds are used by management to charge the costs of certain activities, such as insurance, information services, fleet management, and building maintenance, to individual funds. The assets and liabilities of these internal service funds are included in governmental activities on the government-wide statement of net assets.

Internal Service funds' net assets	4,831,739	
Internal payable-charges under cost to business-type activities - prior years	1,094,872	
Internal receivable-charges over cost to business-type activities - current years	<u>-337,942</u>	
Net adjustment to arrive at net assets - governmental activities.		5,588,669

Liabilities, including bonds, loans, and compensated absences, not due and payable in the current period and therefore are not reported in the governmental fund balance sheets, but are reported on the government-wide statement of net assets (exclusive of internal service funds' debt).

Bonds payable	-5,090,846	
Issuance discount	36,240	
Capital leases payable	-25,731	
Accrued interest payable	-86,903	
Compensated absences	-1,539,009	
Other postemployment benefits	<u>-357,471</u>	
Net adjustment to arrive at net assets - governmental activities		-7,063,720

Lease proceeds for which the city has incurred a liability are in an escrow account, but not available because not all requirements have been fulfilled. 0

Bond premiums, discounts, refundings and issuance costs are reported as other financing sources and uses and expenditures in the governmental fund financial statements but capitalized on the government-wide statement of net assets. 27,060

Interest receivables of governmental activities not reported in the funds. 3,077

Net assets of governmental activities \$ 59,450,368

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

**CITY OF MOSES LAKE**

**Statement of Revenues, Expenditures, and Changes in Fund Balances**

**Governmental Funds**

**For the Year Ended December 31, 2010**

	<u>General</u>	<u>Streets</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 14,636,827	\$ 1,055	\$ 1,120,683	\$ 15,758,565
Licenses and permits	474,688	57,587	0	532,275
Intergovernmental revenues	377,952	573,151	762,253	1,713,357
Charges for services	3,588,382	28,946	14,493	3,631,822
Fines and forfeits	571,443	0	0	571,443
Interest earnings	177,365	0	4,396	181,761
Rents and royalties	160,190	0	0	160,190
Contributions/donations	0	0	79,203	79,203
Assessments	0	0	26,468	26,468
Miscellaneous	2,024	7,148	8,831	18,004
Total revenues	<u>19,988,872</u>	<u>667,887</u>	<u>2,016,328</u>	<u>22,673,087</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,509,265	0	500	1,509,765
Public safety	7,813,478	0	300,754	8,114,232
Public works	1,858,035	0	0	1,858,035
Transportation	0	1,756,864	965,266	2,722,130
Economic environment	775,819	0	0	775,819
Culture and recreation	4,641,312	0	239,527	4,880,839
Capital outlay	32,426	0	1,176,210	1,208,636
Debt service:				
Principal	0	0	586,666	586,666
Interest and debt issue costs	61,049	0	234,654	295,704
Total expenditures	<u>16,691,385</u>	<u>1,756,864</u>	<u>3,503,577</u>	<u>21,951,827</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,297,487</u>	<u>-1,088,977</u>	<u>-1,487,249</u>	<u>721,261</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	360,946	1,200,000	1,556,700	3,117,646
Transfers (out)	-2,841,500	-153,000	-670,146	-3,664,646
Donations of capital assets	0	0	0	
Sales of capital assets	0	0	0	
Miscellaneous nonoperating	0	0	0	
Capital lease	6,481	0	0	6,481
Proceeds of interfund debt	0	0	0	
Proceeds of G.O. bonds	0	0	0	
Discount on GO bonds issued	0	0	0	
Total other financing sources (uses)	<u>-2,474,074</u>	<u>1,047,000</u>	<u>886,554</u>	<u>-540,519</u>
Net change in fund balances	823,413	-41,977	-600,695	180,741
Fund balances-beginning	-22,337	185,908	2,657,206	2,820,778
Prior period adjustments	0	0	0	0
Changes in reserves - petty cash	0	0	0	0
Changes in reserves - vacation payouts	0	0	0	0
Changes in reserves - inventories	0	0	0	0
Fund balances-ending	<u>\$ 801,076</u>	<u>\$ 143,932</u>	<u>\$ 2,056,512</u>	<u>\$ 3,001,519</u>

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

**CITY OF MOSES LAKE**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes  
In Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2010**

Net changes in fund balances - total governmental funds: \$ 180,741

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

Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	1,208,636	
Depreciation expense	-734,863	
Net increase in net assets - governmental activities	473,772	473,772

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund statment. 528,625

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, disposals, and donations) is to increase net assets.

Contributed assets	240,786	
Gain(loss) on sale/disposals of assets	-	
Net increase in net assets - governmental activities	240,786	240,786

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Lease/Bond proceeds reported as debt	-6,481	
Discount on Bonds paid out	0	
Debt issue costs paid out	0	
Debt principal payments	586,666	
Net increase in net assets - governmental activities	580,185	580,185

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 governmental funds.

Other post employment benefits	-37,708	
Accrued debt interest	9,150	
Compensated absences	-50,814	
Amortization of deferred bond costs	-4,084	
Net decrease in net assets - governmental activities	-83,455	-83,455

Accrued interest revenue in the statement of activities does not provide current financial resources and is not reported as revenue in governmental funds. 410

Internal service funds are used by management to charge the costs of equipment, insurance, data processing, and fleet management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.

Internal service funds change in net assets	1,448,616	
lease escrow balance at 12/31/09	0	
Loss (gain) from charges to business-type activities	-337,942	
Net increase in net assets - governmental activities	1,110,674	1,110,674

Change in net assets of governmental activities \$ 3,031,739

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

**CITY OF MOSES LAKE**

**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**

**General Fund**

**For the Year Ended December 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 12,893,500	\$ 13,134,500	\$ 14,636,827	\$ 1,502,327
Licenses and permits	653,500	653,500	474,688	-178,812
Intergovernmental revenues	292,000	373,800	377,952	4,152
Charges for services	2,991,800	3,150,000	3,588,382	438,382
Fines and forfeits	503,500	503,500	571,443	67,943
Interest earnings	217,500	217,500	177,365	-40,135
Rents and royalties	360,900	360,900	160,190	-200,710
Contributions/donations	0	0	0	0
Assessments	0	0	0	0
Miscellaneous	5,000	5,000	2,024	-2,976
Total revenues	<u>17,917,700</u>	<u>18,398,700</u>	<u>19,988,872</u>	<u>1,590,172</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,482,900	1,507,900	1,509,265	-1,365
Public safety	7,908,500	7,984,300	7,813,478	170,822
Public works	1,964,900	1,964,900	1,858,035	106,865
Transportation	0	0	0	0
Economic environment	851,800	854,800	775,819	78,981
Culture and recreation	4,828,900	4,846,900	4,641,312	205,588
Capital outlay	31,000	15,000	32,426	-17,426
Debt service:				
Principal	0	0	0	0
Interest and debt issue costs	53,600	53,600	61,049	-7,449
Total expenditures	<u>17,121,600</u>	<u>17,227,400</u>	<u>16,691,385</u>	<u>536,015</u>
Excess of revenues over expenditures	<u>796,100</u>	<u>1,171,300</u>	<u>3,297,487</u>	<u>2,126,187</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	380,300	380,300	360,946	-19,354
Transfers (out)	-2,441,500	-2,841,500	-2,841,500	0
Proceeds from capital lease	21,000	21,000	6,481	-14,519
Total other financing sources (uses)	<u>-2,040,200</u>	<u>-2,440,200</u>	<u>-2,474,074</u>	<u>-33,874</u>
Net change in fund balances	<u>-1,244,100</u>	<u>-1,268,900</u>	<u>823,413</u>	<u>2,092,313</u>
Fund balances-beginning	1,916,600	1,916,600	-22,337	-1,938,937
Fund balances-ending	<u>\$ 672,500</u>	<u>\$ 647,700</u>	<u>\$ 801,076</u>	<u>\$ 153,376</u>

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

**CITY OF MOSES LAKE**

**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**

**Street Fund**

**For the Year Ended December 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 0	\$ 1,100	\$ 1,055	\$ -45
Licenses and permits	10,000	54,300	57,587	3,287
Intergovernmental revenues	520,000	520,000	573,151	53,151
Charges for services	0	27,700	28,946	1,246
Miscellaneous	0	7,200	7,148	-52
Total revenues	<u>530,000</u>	<u>610,300</u>	<u>667,887</u>	<u>57,587</u>
<b>EXPENDITURES</b>				
Current:				
Transportation	<u>1,724,400</u>	<u>1,810,200</u>	<u>1,756,864</u>	<u>53,336</u>
Total expenditures	<u>1,724,400</u>	<u>1,810,200</u>	<u>1,756,864</u>	<u>53,336</u>
Deficiency of revenues under expenditures	<u>-1,194,400</u>	<u>-1,199,900</u>	<u>-1,088,977</u>	<u>110,923</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,200,000	1,200,000	1,200,000	0
Transfers (out)	<u>-153,000</u>	<u>-153,000</u>	<u>-153,000</u>	<u>0</u>
Total other financing sources (uses)	<u>1,047,000</u>	<u>1,047,000</u>	<u>1,047,000</u>	<u>0</u>
Net change in fund balances	-147,400	-152,900	-41,977	110,923
Fund balances-beginning	<u>176,300</u>	<u>176,300</u>	<u>185,908</u>	<u>9,608</u>
Fund balances-ending	<u>\$ 28,900</u>	<u>\$ 23,400</u>	<u>\$ 143,932</u>	<u>\$ 120,532</u>

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

**CITY OF MOSES LAKE**  
**Statement of Net Assets**  
**Proprietary Funds**  
**December 31, 2010**

	Business-type Activities-Enterprise Funds				Governmental Activities Internal Service Funds	
	Water/Sewer	Sanitation	Ambulance	Airport		Storm Water
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 4,125,938	\$ 808,521	\$ 131,648	\$ 78,765	239,160	\$ 5,384,032
Escrow accounts	0	0	0	0	0	0
Receivables (net of allowance for uncollectibles)	825,152	272,526	463,431	21,220	82,867	1,665,196
Due from other funds	0	0	0	0	0	0
Interfund loans receivable	4,300,000	1,865,502	0	0	0	6,165,502
Intergovernmental receivable	0	0	0	0	7,350	7,350
Inventories and prepaid expenses	452,725	122,071	6,450	0	3,583	584,809
<b>Total current assets</b>	<b>9,703,815</b>	<b>3,068,619</b>	<b>601,529</b>	<b>99,985</b>	<b>332,941</b>	<b>13,806,889</b>
Noncurrent assets:						
Restricted assets:						
Revenue bond reserves/debt securities:						
Cash and cash equivalents	816,460	0	0	0	0	816,460
Interest receivable	2,718	0	0	0	0	2,718
Due from other funds	0	0	0	0	0	0
Due from other governments	80,000	0	0	0	0	80,000
Assessments receivable	0	0	0	0	0	0
Construction in progress:						
Cash and cash equivalents	1,395,500	0	0	0	0	1,395,500
Due from other funds	0	0	0	0	0	0
Due from other governments	0	0	0	0	0	0
<b>Total restricted assets</b>	<b>2,294,678</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,294,678</b>
Capital assets, net of accumulated depreciation:						
Land and land rights	759,047	0	0	460	36,180	795,687
Buildings	25,539,933	0	0	37,873	0	25,577,806
Infrastructure	40,453,379	0	0	64,719	386,868	40,904,966
Machinery and equipment	1,457,986	0	123,290	0	0	1,581,276
Construction in progress	765,110	0	0	0	19,643	784,754
Intangible assets	285,127	0	0	0	0	285,127
<b>Total capital assets</b>	<b>69,260,582</b>	<b>0</b>	<b>123,290</b>	<b>103,052</b>	<b>442,691</b>	<b>69,929,615</b>
Other noncurrent assets:						
Advances to other funds	0	0	0	0	0	0
Deferred charges	101,821	0	0	0	0	101,821
<b>Total other noncurrent assets</b>	<b>101,821</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>101,821</b>
<b>Total non current assets</b>	<b>71,657,081</b>	<b>0</b>	<b>123,290</b>	<b>103,052</b>	<b>442,691</b>	<b>72,326,114</b>
<b>Total assets</b>	<b>\$ 81,360,896</b>	<b>\$ 3,068,619</b>	<b>\$ 724,819</b>	<b>\$ 203,037</b>	<b>\$ 775,632</b>	<b>\$ 86,133,003</b>

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

**CITY OF MOSES LAKE**  
**Statement of Net Assets**  
**Proprietary Funds**  
**December 31, 2010**

	Business-type Activities-Enterprise Funds					Governmental Activities Internal Service Funds
	Water/Sewer	Sanitation	Ambulance	Airport	Storm Water	
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	\$ 120,849	\$ 213,680	\$ 6,884	\$ 2,718	1,040	\$ 345,171
Salaries payable	62,275	2,298	47,201	0	4,934	116,708
Interfund loans payable	0	0	650,000	0	100,000	750,000
Revenues collected in advance	0	0	1,214	0	0	1,214
Interest payable	0	0	0	0	0	0
Capital leases payable	42,678	0	27,778	0	0	70,456
G. O. bonds payable	40,000	0	0	0	0	40,000
Compensated absences	32,508	626	17,504	0	359	50,997
Matured bonds	0	0	0	0	0	0
Matured interest	0	0	0	0	0	0
Accrued interest	146,223	0	0	0	0	146,223
Due to other funds	0	0	0	0	0	0
Intergovernmental loan payable	658,731	0	0	0	0	658,731
Revenue bonds payable	225,000	0	0	0	0	225,000
Other short-term liabilities	2,689	21,821	0	0	0	24,509
Bond premium (discount)	0	0	0	0	0	0
Advances from other funds	0	0	0	0	0	0
Total current liabilities	<u>1,330,953</u>	<u>238,424</u>	<u>750,581</u>	<u>2,718</u>	<u>106,332</u>	<u>2,429,009</u>
Noncurrent liabilities:						
Revenue bonds payable(net discount/premium)	6,973,479	0	0	0	0	6,973,479
G.O. bonds payable(net discount/premium)	829,419	0	0	0	0	829,419
Intergovernmental loans payable	6,472,322	0	0	0	0	6,472,322
Deferred revenues	0	0	0	0	0	0
Compensated absences	292,574	5,630	157,537	0	3,230	458,971
Lease payable	84,576	0	28,754	0	0	113,330
Total noncurrent liabilities	<u>14,652,371</u>	<u>5,630</u>	<u>186,291</u>	<u>0</u>	<u>3,230</u>	<u>14,847,521</u>
Total liabilities	<u>15,983,324</u>	<u>244,054</u>	<u>936,871</u>	<u>2,718</u>	<u>109,562</u>	<u>17,276,530</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	54,263,878	0	66,759	103,052	442,691	54,876,380
Restricted for debt service	810,836	0	0	0	0	810,836
Restricted for capital purposes	0	0	0	0	0	0
Unrestricted	<u>10,302,858</u>	<u>2,824,565</u>	<u>-278,811</u>	<u>97,266</u>	<u>223,379</u>	<u>13,169,257</u>
Total net assets	<u>\$ 65,377,572</u>	<u>\$ 2,824,565</u>	<u>\$ -212,053</u>	<u>\$ 200,318</u>	<u>\$ 666,070</u>	<u>\$ 4,830,248</u>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.

Net assets of business-type activities

-756,930  
\$ 68,099,543



**CITY OF MOSES LAKE**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2010**

	Business-type Activities-Enterprise Funds					Governmental Activities Internal Service Funds
	Water/Sewer	Sanitation	Ambulance	Airport	Storm Water	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$ 8,677,606	\$ 1,946,504	\$ 1,744,055	\$ 40,343	\$ 523,006	\$ 12,931,514
Payments to suppliers	-3,179,393	-2,894,197	-740,826	-21,920	-221,101	-7,057,437
Payments to employees	-1,867,699	-74,276	-1,639,138	0	-132,188	-3,713,301
Miscellaneous revenues	645,369	94,774	1,214	1,514	0	742,872
Miscellaneous expenses	0	0	-1,253	0	-3,563	-4,816
Net cash provided by (used for) operating activities	4,275,882	-927,194	-635,948	19,938	166,154	2,898,831
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Payments from (to) other funds	0	996,960	650,000	0	100,000	1,746,960
Advances from (to) other funds	-3,300,000	0	0	0	0	-3,300,000
Transfers from (to) other funds	-5,143	0	73,500	0	5,143	73,500
Insurance recoveries	36,852	0	0	0	0	36,852
Other intergovernmental payments	-50,000	0	0	0	-7,350	-57,350
Net cash used for noncapital financing activities	-3,318,291	996,960	723,500	0	97,793	-1,500,039
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Proceeds from capital debt	131,564	0	0	0	0	131,564
Principal paid on debt	-958,838	0	-26,835	0	0	-985,673
Interest paid on debt	-417,795	0	-2,461	0	0	-420,256
Capital contributions	377,637	0	0	0	19,762	397,399
Purchases of capital assets	-2,060,582	0	0	0	-44,548	-2,105,130
Proceeds from sale of capital assets	0	0	0	0	0	0
Net cash provided by (used) for capital and related financing activities	-2,928,014	0	-29,295	0	-24,786	-2,982,095
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest income	0	0	0	0	0	0
Net cash provided by investing activities	0	0	0	0	0	0
<b>Net increase (decrease) in cash and cash equivalents</b>	-1,970,422	69,765	58,256	19,938	239,160	-1,583,303
Cash and cash equivalents, January 1	8,308,321	738,756	73,391	58,827	0	9,179,295
Cash and cash equivalents, December 31	\$ 6,337,898	\$ 808,521	\$ 131,648	\$ 78,765	\$ 239,160	\$ 7,595,992

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

Page 2 of 2

**CITY OF MOSES LAKE**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2010**

	Business-type Activities-Enterprise Funds					Totals	Governmental Activities Internal Service Funds
	Water/ Sewer	Sanitation	Ambulance	Airport	Storm Water		
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>							
Operating income (loss)	\$ 1,855,753	\$ -987,665	\$ -499,627	\$ -4,060	\$ 243,022	\$ 607,424	\$ 1,412,033
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation	1,991,166	0	13,251	12,045	0	2,016,462	663,412
Allowance for uncollectible accounts	0	0	-7,181	0	0	-7,181	-
Decrease (increase) in accounts receivable	496,845	-32,406	-151,521	8,454	-82,867	238,505	0
Decrease (increase) in taxes receivable	0	0	0	0	0	0	-
Decrease (increase) in inventory	-58,258	-82,718	1,288	0	0	-139,687	0
Decrease (increase) in prepaid expenses	0	0	0	0	-3,563	-3,563	-6,945
(Decrease) increase in accounts payable	-69,843	77,716	-4,316	1,984	1,040	6,581	290,016
(Decrease) increase in salaries payable	2,899	168	3,284	0	4,934	11,285	4,192
(Decrease) increase in advances	0	0	-39	0	0	-39	0
(Decrease) increase in compensated absences	5,740	3,049	8,913	0	3,589	21,290	240
(Decrease) increase in miscellaneous revenues	51,562	94,661	0	1,514	0	147,737	1,304
Total adjustments	2,420,111	60,470	-136,321	23,998	-76,868	2,291,390	952,221
Net cash provided (used) by operating activities	\$ 4,275,865	\$ -927,194	\$ -635,948	\$ 19,938	\$ 166,154	\$ 2,898,814	\$ 2,364,254
Noncash investing, capital, and financing activities:							
Contributions of capital assets	\$ 334,789	0	0	0	\$ 19,762	\$ 354,551	0
Addition to capital leases	131,564	0	0	0	0	\$ 131,564	\$ 815,205
Transfer of capital assets	0	0	0	0	0	0	0

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

**CITY OF MOSES LAKE**  
**Statement of Net Assets**  
**Fiduciary Funds**  
**December 31, 2010**

	<b>Firemen's Pension Trust Fund</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 541,849	\$ 806,177
Deposits with fiscal agents/trustees		0
Escrow accounts		119,743
Investments		0
Receivables (net of allowance for uncollectibles):		
Taxes	0	0
Other receivables		0
Interfund loans receivable	0	0
Total assets	<u>541,849</u>	<u>925,920</u>
<b>LIABILITIES</b>		
Accounts payable	12,506	0
Custodial accounts payable		925,920
Due to other funds		0
Long-term liabilities	<u>485,981</u>	<u>0</u>
Total liabilities	<u>498,487</u>	<u>925,920</u>
<b>NET ASSETS</b>		
Held in trust for pension benefits and other purposes	<u>\$ 43,362</u>	<u>\$ 0</u>

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

**CITY OF MOSES LAKE**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the year ended December 31, 2010**

	<u>Firemen's Pension Trust Fund</u>
<b>ADDITIONS</b>	
Taxes	0
Intergovernmental revenues	\$ 26,265
Interest earnings	1,669
Transfers in	<u>473,500</u>
Total additions	<u>501,434</u>
<b>DEDUCTIONS</b>	
Benefits	22,225
Medical insurance and direct medical payments	143,111
OPEB expense	<u>66,597</u>
Total deductions	<u>231,933</u>
Change in net assets	269,501
Net assets - beginning	193,245
OPEB prior year(s)	-419,384
Net assets - ending	<u>\$ 43,362</u>

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

**CITY OF MOSES LAKE**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

A. Reporting Entity

The City of Moses Lake was incorporated on September 19, 1938 and operates under the laws of the State of Washington applicable to a non charter code city with a Council/manager form of government. The reporting entity comprises the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organizations; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units also may include organizations that are fiscally dependent on the City in that the City approves the budget, levies their taxes or issues their debt.

Based upon these criteria, the primary government consists solely of the legal entity of the City.

B. 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. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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.

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

The government-wide financial statements are reported using the economic resource's measurement focus and the accrual basis of accounting, as is the proprietary fund and the 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 revenue 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 resource's 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. The City considers property taxes as available if they are collected within 60 days after the year ends. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City of Moses Lake reports the following major governmental funds:

The **General Fund** is the city's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Street Fund** is a special revenue fund that accounts for the operation and maintenance of the City's streets and alleys, street lighting, and traffic control. Revenues are derived mostly from tax contributions and state shared gasoline tax.

The City of Moses Lake reports the following major proprietary funds:

The **Water/Sewer Fund** accounts for the activities of the City's utility. Revenues are received from water and sewer services provided to the general public. Expenses comprise maintenance and extensions of drainage, water and sewer service facilities, operating a water supply system, maintaining sewer treatment plants and operating a water drainage system. This fund also reflects the operation of revenue bonds outstanding, the funds available for redemption of bonds, cumulative reserve and construction funds.

The **Sanitation Fund** accounts for the activities of providing contracted garbage services to its citizens. The fund is self-supporting through user charges.

The **Ambulance Fund** accounts for the activities of emergency services and transportation of patients. Revenues are generated by a utility fee for city residences and user charges for non residences.

The **Airport Fund** accounts for the operation and maintenance of a municipal airport located within the city limits.

The **Storm Water Fund** accounts for all activities of the storm water system in order to control flooding and protect surface and ground water.

Additionally, the City of Moses Lake reports the following funds types:

**Special Revenue Funds** account for revenue from specific taxes or other earmarked revenue sources that by law are designed to finance particular functions or activities of the city.

**Capital Projects Funds** account for financial resources used for the construction and acquisition of major capital facilities other than those financed by special assessments or proprietary funds.

**Debt Service Funds** finance and account for the payment of interest and principal on all tax-supported debt, serial and term, including those payable from special assessments.

**Internal Service Funds** account for information service, equipment rental, building maintenance, self-insurance, and unemployment compensation provided to other departments or agencies of the city or to other cities on a cost reimbursement basis.

**Pension Trust Funds** account for the activities of the Fireman's Pension fund, which accumulates resources for pension benefit payments and post employment health care benefits to qualified firefighters.

**Agency Funds** are custodial in nature, representing assets held by the City in a trustee or agency capacity for the State of Washington, Grant County and others. These funds do not involve the measurement of the results of operations, only assets and liabilities.

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 (GASB). 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 Inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government.

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

Amounts reported as program revenues include (1) charges to customers, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing service, producing and delivering goods in connection with proprietary fund's principal ongoing operations. The principal operating revenues of the Water/Sewer Enterprise fund, or the non major enterprise funds, and of the City's internal service funds are customer charges for sales and services. 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.

D. Budgetary Information

Scope of Budget

Budgets serve as control mechanisms in the operations of governmental units. Legal budgetary (expenditure) control for the City is at the fund level; i.e., expenditures may not exceed budgeted appropriations at the fund level. However, budget and actual information is kept by department, account, and object.

Annual appropriated budgets are adopted for the general and certain special revenue funds on the modified accrual basis of accounting. Grant related special revenue funds and capital project funds adopt budgets on an individual project basis and for the fiscal periods that relate to the life of the project. The budget is based on generally accepted accounting principles (GAAP). There is no difference between budget basis and GAAP. Any unexpended appropriation balances lapse at the end of the fiscal year (except for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned). Proprietary and fiduciary funds are budgeted for management purposes only. National Council on Governmental Accounting Statement No.1 does not require, and the financial statements do not present, budgetary comparisons for proprietary or fiduciary fund types.

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

## Amending the Budget

The City Manager is authorized to transfer budgeted amounts between departments within any fund: however, any revisions that alter the total expenditures of a fund must be approved by the City Council.

When the 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.

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

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

## E. Assets, Liabilities and Equities

### Cash and Cash Equivalents

It is the city's policy to invest all temporary cash surpluses. At December 31, 2010, the treasurer was holding \$20,511,280 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds that are statutorily to receive interest and the balance of the interest is credited to the General Fund according to the RCW and pursuant to city ordinances.

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

### Receivables

Taxes receivable consist of property taxes and related interest and penalties (See Property Taxes Note No. 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 on the fund financial statements consist of unbilled special assessments that are liens against the property benefitted. As of December 31, 2010, there were no special assessment's receivables delinquents.

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

Amounts Due to and From Other Funds and Governmental Units, Interfund Loans and Advances Receivable

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Interfund loans receivable/payable" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." A separate schedule of Interfund loans receivable and payable is furnished in Note No. 13, Interfund Balances and Transfers.

Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are purchased. The reserve for inventory is equal to the ending amount of inventory to indicate that a portion of the fund balance is not available for future expenditures. A comparison to market value is not considered necessary.

Inventories in proprietary funds are valued by the FIFO method which approximates the market value.

Restricted Assets and Liabilities

These accounts contain resources for construction and debt service, including current and delinquent special assessments receivable, in enterprise funds. The current portion of related liability is shown as *Payables from Restricted Assets*. Specific debt service reserve requirements are described in Notes No. 9 & 10, Long-Term Debt and Leases.

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

Cash Investments - Debt Service	\$	816,460
Cash Investments - Construction		1,395,500
Due From Other Governments		80,000
Interest receivable		2,718
Total Restricted Assets	\$	<u>2,294,678</u>

Capital Assets - See Capital Assets and Depreciation Note No. 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.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the city during the current fiscal year is \$1,019,314.

Property, plant, and equipment of the primary government, as well as any component units, are depreciated using the straight-line method over the following estimated useful life:

Assets	Years
Buildings/Improvement's	5 - 50
Other Improvements	5 - 25
Vehicles'	5 - 15
Machinery & Equipment	5 - 20
Utility Infrastructure	20 - 50
Streets, Paths, Trails	N/A
Traffic Signals	40
Runway's & Taxiways	12 - 20

Infrastructure capital assets, valued at \$50,000 or greater, are long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Included in the City's infrastructure are the streets and bridges network. The City has elected to use the modified approach as defined in GASB Statement No. 34 for infrastructure reporting for bridges, paved streets, bike paths, and alleys. There are no depreciation expenses reported for such assets nor are amounts capitalized in connection with improvements that lengthen the lives of the assets unless the improvements also increase the service potential.

### Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Vacation and sick pay are accrued at year end in the government-wide, proprietary, and fiduciary fund financial statements.

Vacation pay, which may be accumulated up to two years of earned annual leave, is payable upon separation of employment for any reason. Sick leave may be accumulated up to 480 hours for payoff of exempt employees, and is payable upon voluntary termination or a reduction in work force in accordance with the following schedule:

<u>Years of Service</u>	<u>Percent Payable</u>
0-4	10
5-9	25
10-19	50
20-29	75
30+	100

For members of the General Union bargaining unit who were city employees and members of the Public Employees Retirement System as of January 1, 1983 and who retire, 50% of accumulated sick leave (to a maximum of 480 hours) will be paid as severance pay.

Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

Deferred Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criterion has not been met. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable	\$ 387,384	\$ -
Revenues not applied	-	525,764
Special assessments not yet due	<u>25,144</u>	<u>-</u>
	<u>\$ 412,528</u>	<u>\$ 525,764</u>

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**

Explanation of Certain 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.

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

The governmental fund 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.

#### Budgetary Compliance Information

The City's annual budget process is similar each year. The calendar below outlines the general time frame followed to prepare, review and adopt the annual budget.

July- A request is made by the Finance Director to all Department Directors to prepare detailed estimates of revenues and expenditures for the next fiscal year (calendar year). (RCW35A.33.030 requires this by the second Monday in September.)

August- The estimates are to be filed with the Finance Director. (RCW 35A.33.030 requires this by the fourth Monday in September.)

September- The estimates are presented to the City Manager for modifications, revisions or additions. The Finance Director submits to the City Manager a proposed Preliminary Budget setting forth a complete financial program showing expenditures requested by each department and sources of revenue by which each such program is proposed to be financed. (RCW 35A.33.050 requires this by the first of October.)

The City Manager provides the legislative body with current information on estimates of revenues from all sources as proposed in the budget for the current year. He also provides the legislative body with the proposed Preliminary Budget setting forth the complete financial program, showing expenditures requested by each department and sources of revenue by which each program is proposed to be financed. (RCW 35A.33.135, no later than the first Monday in October)

October- The legislative body must hold a public hearing on revenue sources for the coming year's budget, including consideration of possible increases in property tax revenues. (RCW 84.55.120) After the hearing, a city may choose to pass an ordinance at the same meeting authorizing a property tax increase in terms of dollars and percent to comply with State statutes.

The City Manager prepares preliminary budget, budget message, and files it with the legislative body and Finance Director (RCW 35.33.055 & 35A.33.052. At least 60 days before ensuing fiscal year.)

November- The Finance Director publishes notice of filing of Preliminary Budget and publishes notice of public hearing on the final budget once a week for two consecutive weeks. (RCW 35.33.061 & 35A.33.050, no later than the first two weeks in November)

Setting property tax levies. (RCW 84.53.070, November 30 for all cities and towns)

The legislative body must schedule hearings on the budget or parts of the budget and may require the presence of Department Directors. (RCW 35.33.057 & 35A.33.055, prior to the final hearing)

Copies of Proposed Budget are made available to the public, (RCW 35A.33.055 & 35A.33.052, no later than six weeks before January 1)

A final hearing on Proposed Budget is made. (RCW 35.33.071 & 35A.33.070, on or before first Monday of December)

Adoption of the budget is made. (RCW 35.33.075 & 35A.33.075, following the public hearing and prior to the beginning of the ensuing fiscal year)

Copies of final budget are transmitted to the State Auditor's Office and to Municipal Research and Services Center.

#### **NOTE 4 - DEPOSITS AND INVESTMENTS**

##### Deposits

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

##### Investments

As required by state law, all investments of the City of Moses Lake's funds (except as noted below) are obligations of the U. S. Government, U. S. agency issues, obligations of the state of Washington, general obligations of Washington State municipalities, the State Treasurer's Investment Pool (LGIP), Grant County Investment Pool (GCIP), bankers' acceptances, or certificates of deposit with Washington State banks and savings and loan institutions. Regulatory oversight is performed by the CFO, the Treasurer, or the Treasury Accountant. As prescribed by RCW 43.09.050, the state auditor will "audit the accounts" and "inspect the books" of the State Treasurer to determine the compliance of investment activities with state statutes. Also in accordance with RCW 43.250.080, the State Treasurer will submit an annual summary of LGIP activity to the governor, the state auditor, and the Joint Legislative Audit and Review Committee. Investments of pension trust funds are not subject to the preceding limitations. All temporary investments are stated at cost. Other property and investments are shown on the statement of net assets at historical cost. (Other property consists of real estate held for future use). The fair value of the cities investment in the LGIP and the GCIP is the same as the value of the pool shares.

At December 31, 2010, the bank balance was \$211,404. Of the bank balance \$100,000 was covered by Federal Depository Insurance that are insured, registered or held by the City or it's agent in the City's name. The remainder of the bank balance was covered by the State of Washington Public Deposit Protection Commission which includes uninsured and unregistered investments which are held by the counter party's trust department or agent in the City's name.

Investment Type	Fair Value	Rating	Weighted Maturity
Sterling Savings Bank C.D.	1,500,000	not rated	15
Grant County Invest Pool	\$ 8,877,016	not rated	13
WA State Invest Pool	10,134,264	not rated	15
Total Fair Value	<u>\$ 20,511,280</u>		
Portfolio Weighted Average Maturity			21

*Interest rate risk:* Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment or a deposit. In accordance with its investment policy, the City manages its exposure to decreases in fair values by limiting the weighted average maturity of its investment portfolio to less than 9 months.

*Credit Risk:* Safety of principle is the foremost objective of the City. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Washington State Investment Pool, a 2a-7 fund, managed by the State Treasurer's Office is limited to high quality obligations with limited maximum and average maturities which is to minimize both market and credit risk. The pool is unrated but the state of Washington's Legislature has regulatory oversight. The City's investment in general obligation bonds were rated "A" by Standards and Poor's. The same rating agency has upgraded the City's Revenue Bonds to "A+" affirming a stable outlook.

Under the City's investment policy, all temporary cash surpluses are invested. The City's investment policy is more conservative to limit risk, investing the portfolio in treasury notes and bills, certificates of deposit with qualified public depositories, and banker's acceptances with a credit rating for A1 or P1 by nationally recognized rating organizations. The City's investments are in compliance with all state investment laws and City investment policies.

*Concentration of credit risk:* Concentration risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy states, with the exception of US Treasury securities and authorized pools, no more than 50% of the portfolio can be invested in a single security type or institution.

*Custodial credit risk - investments:* Custodial risk is the risk the city will not be able to recover the value of its investments or collateral securities in the possession of an outside party, in the event of the failure of the counter party. The City has no custodial risk based on GASB 40 guidelines.

## NOTE 5 - PROPERTY TAXES

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

### Property Tax Calendar

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

Property tax is recorded as a receivable when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as deferred revenue and recognized as revenue of the period to which it applies. To allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

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

1. Washington State law in RCW 84.55.010 limits the growth of regular property taxes to one percent (1%) per year, unless approved by the voters. The levy shall be set so the regular property taxes payable in the following year shall not exceed the limit factor multiplied by the amount of regular property taxes lawfully levied in the highest of the three most recent years in which such taxes were levied plus an additional dollar amount calculated by multiplying the increase in assessed value from new construction, improvements to property, and increases in the assessed value of state-assessed property by the regular property tax rate of the preceding year.
2. The Washington State Constitution limits the total regular property taxes to one percent (1%) 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 one percent (1%) limit.

The city's regular levy for 2010 was \$3.23083 per \$1,000 on an assessed valuation of \$2,809,290,237 for a total regular levy of \$9,076,339.

## NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

### Capital Assets

A summary of capital assets for the year ended December 31, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital Assets Not Depreciated:				
Land	\$ 4,485,742	\$ 849,293	\$ -	\$ 5,335,035
Infrastructure*	34,494,336	2,014,762	-	36,509,098
CIP	<u>3,427,185</u>	<u>4,651,438</u>	<u>3,141,136</u>	<u>4,937,488</u>
Total capital assets not Depreciated	<u>42,407,263</u>	<u>7,515,493</u>	<u>3,141,136</u>	<u>46,781,620</u>
Capital Assets Depreciated:				
Buildings	25,921,113	501,169	-	26,422,281
Intang-Software	147,051	-	-	147,051
Machinery and equipment	9,689,157	1,120,379	391,910	10,417,627
Infrastructure	<u>1,448,608</u>	<u>-</u>	<u>-</u>	<u>1,448,608</u>
Total	<u>37,205,929</u>	<u>1,621,548</u>	<u>391,910</u>	<u>38,435,567</u>
Less Accumulated Depreciation:				
Buildings	7,946,461	790,506	5,449	8,731,518
Intang-software	147,051	-	-	147,051
Machinery and Equipment	6,790,419	592,369	376,557	7,006,231
Infrastructure	<u>724,304</u>	<u>36,215</u>	<u>-</u>	<u>760,519</u>
Total Accumulated Depreciation	<u>15,608,235</u>	<u>1,419,090</u>	<u>382,006</u>	<u>16,645,319</u>
Total Capital Assets Being Depreciated, Net	<u>21,597,693</u>	<u>202,458</u>	<u>9,904</u>	<u>21,790,248</u>
Governmental Activities Capital Assets, Net	<u>\$ 64,004,956</u>	<u>\$ 7,717,952</u>	<u>\$ 3,151,039</u>	<u>\$ 68,571,868</u>

\* The city accounts for the city streets, alleys, parking lots , boat ramps/landings, bike/jogging paths, bridges and storm drains using the modified approach and reports them as non-depreciable Infrastructure. Under the modified approach, rather than recording depreciation, asset condition is reported The city includes internal service fund assets as part of governmental totals above.

	Beginning Balance	Increase	Decreases	Ending Balance
<b>Business-type Activities</b>				
<b>Capital Assets Not Depreciated:</b>				
Land	\$ 1,080,814	\$ -	\$ -	\$ 1,080,814
CIP	277,903	2,444,573	1,937,722	784,754
Total capital assets not Depreciated	<u>1,358,717</u>	<u>2,444,573</u>	<u>1,937,722</u>	<u>1,865,567</u>
<b>Capital Assets Depreciated:</b>				
Buildings	33,364,242	358,704	-	33,722,946
Machinery and equipment	1,982,282	293,511	-	2,275,793
Infrastructure	60,291,608	1,285,897	\$390	61,577,115
Total	<u>95,638,132</u>	<u>1,938,112</u>	<u>390</u>	<u>97,575,854</u>
<b>Less Accumulated Depreciation:</b>				
Buildings	7,422,387	722,753	-	8,145,140
Machinery and Equipment	608,153	86,364	-	694,517
Infrastructure	19,464,805	1,209,729	\$2,385	20,672,149
Total Accumulated Depreciation	<u>27,495,345</u>	<u>2,018,847</u>	<u>2,385</u>	<u>29,511,807</u>
Total Capital Assets being Depreciated, Net	<u>68,142,787</u>	<u>(80,735)</u>	<u>(1,995)</u>	<u>68,064,047</u>
Business-type Activities Capital Assets, Net	<u>\$ 69,501,503</u>	<u>\$ 2,363,839</u>	<u>\$ 1,935,727</u>	<u>\$ 69,929,615</u>

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

Governmental Activities	Depreciation
General Government	\$ 39,323
Public Safety	21,063
Transportation	37,781
Public Works	2,985
Culture and Recreation	633,712
Capital Assets Held by the Government's Internal Service Funds are Charged to the Various Functions-Based on Usage	302,220
Total Depreciation - Governmental Activities	<u>\$ 1,037,084</u>

Business-Type Activities	Depreciation
Water/Sewer	\$ 1,991,166
Ambulance	13,251
Airport	12,045
Total Depreciation - Business-Type Activities	<u>\$ 2,016,462</u>

Collections Not Capitalized

The city has a collection of Indian artifacts that have been acquired over the years, the “Adam East Collection.” This collection is held at the Moses Lake Museum and Art Center and is determined to be exempt from capitalization. This collection meets all the exemption requirements as follows:

1. The collection is held for public exhibition, education or research in furtherance of public service rather than financial gain.
2. The collection is protected, kept unencumbered, cared for, and preserved.
3. The collection is subject to Moses Lake Museum & Art Center Collection Policy section VI:D which requires the proceeds from sales of collection items be used to acquire other items for the collection.

Construction Commitments

The city has active construction projects as of December 31, 2010. Active projects are: Civic Center, a well project and a sewer project. At year-end the government’s commitments with contractors are as follows:

Project	Total Contract Amount Awarded	Spent to Date	Remaining Commitment
Civic Center	\$ 7,697,291	\$ 3,550,046	\$ 4,147,245
Mae Valley Well Project	478,956	411,432	67,525
Blue Heron Sewer Crossing	96,650	38,646	58,004
<b>Total</b>	<b>\$ 8,272,898</b>	<b>\$ 4,000,124</b>	<b>\$ 4,272,775</b>

.....  
**NOTE 7 - PENSION PLANS**

Substantially all City of Moses Lake full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
P. O. Box 48380  
Olympia, WA 98504-8380

The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

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

### Plan Description

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

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

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

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

**Plan 1** members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased 3 percent annually. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five

years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance is granted at age 66 based upon years of service times the COLA amount (based on the consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military, if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of on-the-job injury.

**Plan 2** members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned 10 years of service credit may request a refund of the member's accumulated contributions. Effective July 22, 2007, said refund (adjusted as needed for specified legal reductions) is increased from 100 percent to 200 percent of the accumulated contributions if the member's death occurs in the uniformed service to the United States while participating in operation *Enduring Freedom* or *Persian Gulf*, *Operation Iraqi Freedom*.

**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 monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible to retire with full benefits at age 65, others may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contributions retirement benefits are solely dependent upon the results of investment activities.

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 Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit; required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 1, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and industries.

There are 1,189 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	74,857
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,074
Active Plan Members Vested	105,339
Active Plan Members Non-vested	53,896
Total	<u>262,166</u>

### Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Director of the Department of Retirement Systems sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapter 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll as of December 31, 2010, were as follows:

Members not participating in JBM:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	5.31%**	5.31%**	5.31%***
Employee	6.00%****	3.90%****	*****

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

\*\* The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% for Plans 2 and 3.

\*\*\*Plan 3 defined benefit portion only.

\*\*\*\*The employee rate for state elected officials is 7.50% for Plan 1 and 3.90% for Plan 2.

\*\*\*\*\* Variable from 5% minimum to 15% maximum based on rate selected by the PERS 3 member.

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

		PERS Plan 1		PERS Plan 2		PERS Plan 3
2010	\$	25,866	\$	245,886	\$	56,751
2009	\$	35,068	\$	320,408	\$	68,994
2008	\$	33,995	\$	311,218	\$	27,872

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

### Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 20, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters and, as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with the Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception.

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

LEOFF defined benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

**LEOFF Plan 1** member's are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at age 50.

The benefit per year of service calculated as a percent of final average salary is as follows:

<u>Term of Service</u>	<u>Percent of Final Average</u>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 month's salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined

allowances of 60 percent of the FAS; or (2) If not eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

**LEOFF Plan 2** members are vested after the completion of five years of eligible service. Plan 2 members may retire at age 50 with 20 years of service, or at age 53 with five years of service, with an allowance of 2 percent of the FAS per year of service. (FAS is based on the highest consecutive 60 months.) Plan 2 members who retire prior to age 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A catastrophic disability benefit equal to 70 percent of their FAS, subject to offsets for worker' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to Federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while servicing in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible children may purchase service credit on behalf of the deceased member.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries

There are 372 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	9,454
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	674
Active Plan Members Vested	13,363
Active Plan Members Non-vested	3,944
Total	27,435

### Funding Policy

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

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2010, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.24%**
Employee	0.00%	8.46%
State	N/A	3.38%

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

\*\* The employer rate for ports and universities is 8.62%.

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

	LEOFF Plan 1	LEOFF Plan 2
2010	\$ 0	\$ 236,588
2009	\$ 0	\$ 230,960
2008	\$ 30	\$ 213,547

#### Other 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 member contributions of \$30 per year; employer contributions of \$30 per year; 40 percent of the Fire Insurance Premium Tax; and earnings from the investment of moneys by the Washington State Investment Board. However, members may elect to withdraw their contributions upon termination. This pension fund is administered by the State of Washington Board for Volunteer Fire Fighters and Reserve Officers, and the only expense to the city is our contribution. Actuarial Valuation is available on the Washington Office of State Actuary website. The City's VFT&P cost and the percentage of VFT&P cost contributed to the plan for 2010 and the two preceding years were as follows.

	Annual VFR&P Cost	Contribution as a % of VFR&P Cost
2010	\$ 300	\$ 100%
2009	\$ 360	\$ 100%
2008	\$ 360	\$ 100%

#### Local Governments Pension Trust Funds

The City of Moses Lake is also the administrator of a pension retirement system called Fireman's Pension Fund which is a closed, single-employer, defined benefit pension plan that was established in conformance with RCW Chapter 41.8. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries, these benefit provisions are established by the State Legislature. Membership is

limited to firefighters employed prior to March 1, 1970, when the LEOFF retirement system was established. The City's obligation under the Firemen's Pension fund consists of paying the difference between pension and medical benefits provided by LEOFF and those provided by the Firemen's Pension Fund for covered firefighters who retire after March 1, 1970. The system is shown as a trust fund in the financial reports of the city.

<u>Membership of the Firemen's Pension Fund</u>	<u>December 31, 2010</u>
Retirees currently receiving full retirement benefits through LEOFF	9
Retirees receiving benefits through both LEOFF and FPF	2
Beneficiaries receiving benefits through FPF	3
Active plan member's	0

### Deferred Compensation Plans

The City of Moses Lake offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. Employees are offered a choice of plans with Hartford Insurance, ICMA Retirement Corporation or the State of Washington Deferred Compensation Program. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. The plan's funds, held in trust for the exclusive benefit of the participants and their beneficiaries, are not included in the presentation of the city's financial reports.

### **NOTE 8 - RISK MANAGEMENT**

The city of Moses Lake is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 REW (self-insurance regulation) and Chapter 39.34 RCW (Inter-local Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 136 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the reinsured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimit in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

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

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

The City of Moses Lake maintains insurance against most normal hazards except for unemployment compensation where the city has elected to become self-insured. The city also has set aside monies for possible future self-insurance for accident insurance and this self-insures the first \$50,000.

Claims are processed by independent claims managers. Based on the claims manager's estimates, the city's estimated liability for possible losses at December 31, 2010 were as follows:

Unemployment Compensation	\$284,870
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Claims settlements and loss expenses are accrued in the unemployment compensation fund for the estimated settlement value of both reported and unreported claims. This fund is responsible for collecting Interfund premiums from insured funds and departments and for paying claim settlements. Interfund premiums are assessed on the basis of claims experience and are reported as revenues and expenses or expenditures.

## **NOTE 9 - LONG-TERM DEBT**

The City of Moses Lake issues general obligation and revenue bonds to finance the purchase of land and the acquisition or construction of reservoirs, an aquatic center, water and sewer lines and upgrade of wastewater treatment plants. Bonded indebtedness has also been entered into in prior years to advance refund several general obligation and revenue bonds.

### General Obligation Bonds

General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources.

General obligation bonds currently outstanding are as follows:

Name of Issuance	Purpose	Issuance Date	Maturity Date	Original Debt	Interest Rate	Amount Outstanding
1998 LTGO Bond	Governmental Activities - Refunding	01/06/1998	08/01/2009	\$ 1,539,725	4.0 - 4.8%	\$ 181,678
1998 LTGO Bond	Governmental - Internal Service	01/06/1998	08/01/2009	155,275	4.0 - 4.8%	18,322
2002 LTGO Bond	Governmental Activities - Refunding	09/10/2002	08/01/2012	2,315,694	1.5 - 3.95%	525,834
2002 LTGO Bond	Governmental - Internal Service	09/10/2002	08/01/2012	1,119,306	1.5 - 3.95%	254,166
2003 LTGO Bond	Governmental - Internal Service	12/30/2003	09/01/2023	2,725,000	1.2 - 4.6%	1,985,000
2006 LTGO Bond	Governmental Activities	06/05/2006	08/01/2026	5,083,333	3.65-4.25%	4,383,333
2006 LTGO Bond	Operations Complex	06/05/2006	08/01/2026	1,016,667	3.65-4.25%	876,667
2010 LTGO Bond	Civic Center	09/07/2010	12/01/2020	<u>5,925,000</u>	2.00-3.25%	<u>5,925,000</u>
Total				\$ <u>19,880,000</u>		\$ <u>14,150,000</u>

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

Year	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 1,330,000	\$ 457,996	\$ 40,000	\$ 36,111
2012	1,378,333	410,976	41,667	34,591
2013	906,667	366,893	43,333	32,987
2014	925,000	342,368	45,000	31,297
2015	953,333	317,010	46,667	29,520
2016-2020	5,240,833	1,112,818	264,167	117,542
2020-2026	2,539,167	356,852	395,833	60,928
Total	<u>\$ 13,273,333</u>	<u>\$ 3,364,913</u>	<u>\$ 876,667</u>	<u>\$ 342,976</u>

### Revenue Bonds

Revenue Bonds are bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds are created by ordinance, adopted by the City Council, and financed from Enterprise Fund revenues.

Revenue bonds currently outstanding are as follows:

Bond	Issuance Date	Maturity Date	Original Debt	Interest Rate	Amount
Revenue Bonds >04	10/13/2004	9/1/2024	\$ <u>7,015,000</u>	2.50-5.00%	\$ <u>6,875,000</u>
Total			\$ <u>7,015,000</u>		\$ <u>6,875,000</u>

Revenue bond debt service requirements to maturity are as follows:

Year	Principal	Interest	Total
2011	\$ 225,000	322,563	547,563
2012	250,000	314,688	564,688
2013	275,000	305,937	580,937
2014	290,000	295,625	585,625
2015	305,000	284,750	589,750
2016-2020	2,190,000	1,170,800	3,360,800
2021-2024	3,340,000	480,750	3,820,750
Total	\$ 6,875,000	\$ 3,175,113	\$ 10,050,113

Per Internal Revenue Service Code Section 148, rebate arbitrage are earnings on investments purchased from gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebate arbitrage must be paid to the federal government. The City of Moses Lake carefully monitors investments to restrict earnings to a yield less than the bond issue, and therefore limit any arbitrage liability. As of December 31, 2010 the City has no arbitrage rebate liability.

#### Government Loans

Government loans have been received to provide for construction of proprietary fund capital projects. Government loans outstanding at year-end are as follows:

Loan	Interest Rate	Amount
PWTF Well #14	3.00%	\$ 41,444
PWTF Reservoir #8	2.00%	381,584
PWTF WWTP-Design	.50%	355,084
PWTF WWTP-Construction	.50%	6,352,941
Total		\$ 7,131,053

The annual debt service requirements to maturity for Government loans are as follows:

Year	Principal	Interest	Total
2011	\$ 658,731	42,415	701,147
2012	658,731	37,459	696,190
2013	638,009	32,502	670,511
2014	638,009	28,167	666,176
2015	638,009	23,833	661,841
2016-2020	2,808,461	69,404	2,877,865
2021-2022	1,091,103	8,103	1,099,206
Total	\$ 7,131,053	\$ 241,883	\$ 7,372,936

In proprietary funds, unamortized debt issue costs are recorded as deferred charges and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

At December 31, 2010, the city had \$326,546 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$816,460 in sinking funds and reserves as required by bond indentures.

**NOTE 10 - LEASES**

Operating Leases

The City of Moses Lake leases a portion of a building which the museum and art center occupies. This lease was for 10 years beginning January 1, 2001 and terminating December 31, 2010, with an option to extend for five additional years. The lease was extended for one additional year pending the completion of the Civic Center. Total cost for this lease was \$51,600, payable in equal monthly payments of \$4,300, for the year ended December 31, 2010. The future minimum lease payments for this lease are as follows:

Year	Amount
2011	51,600
Total	\$ 51,600

Capital Leases

The City of Moses Lake has entered into lease agreements for financing machinery and equipment and other improvements. An insignificant portion of these capital leases were used to purchase items below the capitalization threshold and therefore are non-capital items.

These lease agreements qualify as capital leases for accounting purposes, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Net Capital Lease Asset	Governmental Activities	Business-Type Activities
Other Improvements	\$ -	\$ 23,288
Machinery & Equipment	3,178,314	237,781
Less Accumulated Depreciation	994,348	54,121
Total	\$ 2,183,966	\$ 206,947

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2010 were as follows:

Year	Governmental Activities	Business-Type Activities
2011	\$ 608,791	\$ 75,647
2012	493,862	72,139
2013	316,694	42,844
2014	207,163	3,015
Total Minimum Lease Payments	1,626,510	193,645
Less: Interest	84,897	9,859
Present Value of Minimum Lease Payments	\$ 1,541,613	\$ 183,786

### NOTE 11 - CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2010, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Internal Service Funds
Governmental activities						
Bonds payable:						
General obligation bonds	\$ 8,169,999	\$ 5,925,000	\$ 821,667	\$ 13,273,332	\$ 1,330,000	\$ 7,399,502
Less deferred amount						
Issuance premiums(discounts)	(57,311)	163,264	3,973	101,980	-	138,220
Total bonds	8,112,688	6,088,264	825,640	13,375,312	1,330,000	7,537,722
Capital leases	1,296,388	900,000	654,776	1,541,613	565,302	964,345
Claims and judgements	-	-	-	-	-	-
Compensated absences	1,569,233	55,473	4,419	1,620,287	8,128	73,151
OPEB	319,763	37,709	-	357,472	-	-
Governmental liabilities	<u>\$ 11,298,072</u>	<u>\$ 7,081,446</u>	<u>\$ 1,484,834</u>	<u>\$ 16,894,684</u>	<u>\$ 1,903,430</u>	<u>\$ 8,575,217</u>
Business-type activities						
Bonds payable:						
General Obligation Bonds	\$ 915,001	-	\$ 38,333	\$ 876,668	\$ 40,000	-
Revenue bonds	6,950,000	-	75,000	6,875,000	225,000	-
Less deferred amounts						
Issuance premiums(discounts)	339,433	468	23,669	316,231	-	-
Total bonds	8,204,434	468	137,003	8,067,899	265,000	-
Capital leases	258,086	-	74,301	183,786	70,456	-
Government loans	7,929,092	-	798,039	7,131,053	658,731	-
Compensated absences	488,678	21,290	-	509,968	50,997	-
Business-Type liabilities	<u>\$ 16,880,290</u>	<u>\$ 21,758</u>	<u>\$ 1,009,342</u>	<u>\$ 15,892,705</u>	<u>\$ 1,045,183</u>	<u>\$ -</u>

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$ 8,575,217 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 12 - CONTINGENCIES AND LITIGATIONS**

The City of Moses Lake has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the city will have to make payment. In the opinion of management, the city's insurance policies and/or self-insurance reserves are adequate to pay all known or pending claims.

As discussed in Notes No. 9 and 10 Long-Term Debt and Leases, the city is contingently liable for repayment of refunded debt.

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

As of December 31, 2010, significant suits were:

Pending

1. Moses Lake v. EPA, Boeing, and Department of Defense: The city has filed a lawsuit to recover against the defendants for contamination of city wells. The trial has been avoided. The city, EPA, and DOD are negotiating the city's share of liability and the amount of any potential recovery by the City's water utility.
2. Rodriguez v. Moses Lake: This is a suit filed by Letitia Rodriguez. The City has insurance for this claim subject to a \$25,000 contribution.
3. Medina v. Moses lake: This is a suit filed on behalf of a child attacked by a dog. The City has insurance for this claim subject to a \$25,000 contribution.

Of the litigation settled in the past three years, where the City was the defendant, none exceeded the insurance coverage.

**NOTE 13 - INTERFUND BALANCES AND TRANSFERS**

Interfund Balances

Loans between funds are classified as interfund loans receivable or payable on the statement of net assets. The loans were for Operations Complex construction, Civic Center Construction, and operating expenses. Interfund balances at December 31, 2010 were as follows:

	PAYABLE FROM					TOTALS
	GENERAL FUND	BUILDING MAINTENANCE	EQUIPMENT RENTAL	STORMWATER FUND	AMBULANCE FUND	
PAY TO SANITATION	\$ 1,021,107	\$	\$ 394,395		\$ 450,000	\$ 1,865,502
WATER/SEWER		4,000,000		\$ 100,000	200,000	4,300,000
TOTALS	\$ 1,021,107	\$ 4,000,000	\$ 394,395	\$ 100,000	\$ 650,000	\$ 6,165,502

Interfund Transfers

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services. The principle reason for the transfers is to move the resources from the fund collecting them to the fund using them as required by statute or budget and to account for operating subsidies between funds in accordance with budget authorization. The interfund transfer activity for the year is as follows:

		TRANSFERS FROM				
		General	Special Revenue	Debt Service	Water Sewer	Totals
TRANSFERS TO	General	\$ -	\$ 350,000	\$ 10,946	\$ -	\$ 360,946
	Special Revenue	1,950,000	-	-	-	1,950,000
	Debt Service	344,500	462,200	-	-	806,700
	Storm Sewer	-	-	-	5,143	5,143
	Ambulance	73,500	-	-	-	73,500
	Firemen's Pension	473,500	-	-	-	473,500
	Totals	<u>\$ 2,841,500</u>	<u>\$ 812,200</u>	<u>\$ 10,946</u>	<u>\$ 5,143</u>	<u>\$ 3,669,789</u>

## NOTE 14 - SEGMENT INFORMATION

The city operates three utilities which are primarily financed by user charges. The only required fund to display segment information is the water/sewer fund. Segment information for the year-end is provided below.

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>CONDENSED STATEMENT OF NET ASSETS</b>			
Assets:			
Current asset	\$ 6,381,113	\$ 3,322,702	\$ 9,703,815
Restricted assets	1,329,412	965,266	2,294,678
Capital assets	32,457,213	36,803,368	69,260,582
Other assets	<u>50,911</u>	<u>50,911</u>	<u>101,821</u>
<b>TOTAL ASSETS</b>	<b>40,218,649</b>	<b>41,142,248</b>	<b>81,360,896</b>
Liabilities:			
Current liabilities	110,083	73,041	183,124
Current Liabilities payable from restricted assets	272,040	875,789	1,147,829
Noncurrent liabilities	<u>4,613,519</u>	<u>10,038,852</u>	<u>14,652,371</u>
<b>TOTAL LIABILITIES</b>	<b>4,995,642</b>	<b>10,987,682</b>	<b>15,983,324</b>
Net Assets:			
Invested in capital assets, net of related debt	28,082,206	26,181,672	54,263,878
Restricted	405,418	405,418	810,836
Unrestricted	<u>6,735,383</u>	<u>3,567,476</u>	<u>10,302,858</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>35,223,007</u></b>	<b>\$ <u>30,154,566</u></b>	<b>\$ <u>65,377,573</u></b>

## CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Total operating Revenues	\$ 5,187,898	\$ 3,586,669	\$ 8,774,567
Depreciation, Amortization, Depletion	(1,168,506)	(822,660)	(1,991,166)
Total Operating Expense	<u>(2,804,338)</u>	<u>(2,123,292)</u>	<u>(4,927,631)</u>
Operating income	1,215,054	640,717	1,855,771
Nonoperating revenue (expenses):			
Interest income	12,197	11,835	24,032
Miscellaneous revenues/expense	349,347	310,349	659,696
Intergovernmental payments	-	(50,000)	(50,000)
Interest expense	(188,586)	(231,712)	(420,298)
Capital Contributions	544,893	145,374	690,266
Transfers in (out)	<u>(5,143)</u>	<u>-</u>	<u>(5,143)</u>
Change in net assets	1,927,762	826,562	2,754,324
Beginning net assets	<u>33,295,245</u>	<u>29,328,004</u>	<u>62,623,249</u>
Ending net assets	<b>\$ <u>35,223,007</u></b>	<b>\$ <u>30,154,566</u></b>	<b>\$ <u>65,377,573</u></b>

## CONDENSED STATEMENT OF CASH FLOWS

Net cash provided (used) by:			
Operating activities	\$ 2,506,676	\$ 1,769,206	\$ 4,275,882
Noncapital financing activities	(2,554,999)	(763,292)	(3,318,291)
Capital & related financing activities	<u>(1,319,156)</u>	<u>(1,608,858)</u>	<u>(2,928,014)</u>
Net increase (decrease)	(1,367,479)	(602,944)	(1,970,422)
Beginning cash & cash equivalents	7,132,048	1,176,273	8,308,321
Ending cash & cash equivalents	<b>\$ <u>5,764,569</u></b>	<b>\$ <u>573,329</u></b>	<b>\$ <u>6,337,899</u></b>

## **NOTE 15- OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS**

In addition to the pension benefits described in Note No. 7, the city provides post-retirement health care benefits in accordance with statute for police and fire employees who are eligible under the Police Relief and Pension Fund and Firefighter's Pension Fund. Currently the city has 19 individuals that meet the eligibility requirements.

Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) Plan 1

### Summary of Significant Accounting Policies

The LEOFF's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable. Investments are reported at fair value. The city has elected to calculate information of an actuarial nature using the alternative measurement method permitted for plans with fewer than one hundred employees.

### Plan Description

The "plan" is directed and defined by State of Washington Revised Code (RCW). Employers, such as municipalities, counties, and fire districts, are required by RCW 41.26.150 to pay the costs of necessary medical services for any active or retired members of the Law Enforcement Officers' and Fire Fighters' Retirement System Plan One (LEOFF I). Under subsection 4, the employer may provide for medical insurance through insurance carriers. The plan covers retirees who are retired on disability as well as those who are retired after reaching age requirements. To qualify for medical services, the employee need only be active or disability retired, or the employee's service retirement date is that day following separation from LEOFF employment with the city. To make this plainer, if the employee leaves the city and takes a job with another member of the Washington State Retirement System, regardless of the plan, then that member would then be liable for the employee's medical services. Employees may retire after 5 years of service after reaching age 50. Employees with 20 years of service who leave employment before retirement age are eligible for medical benefits upon reaching age 50. Insurance for retired individuals is provided through the employer's group plan, which covers both active and qualified retired members. The health insurance coverage and medical costs for retired firefighters are paid for out of the fire fighters' pension fund. For law enforcement officers, costs are paid out of the police department budget. The medical services cover active and retired members only. Spouses are not eligible.

### Funding Status and Funding Policy

As of March 2008 there are no active members, and currently 19 retired members. Health insurance premiums are paid monthly. Other medical services are paid bimonthly as billings are presented for reimbursement. The city reimburses 100 percent of the amount of validated claims for medical costs incurred by these individuals. The pension board performs an annual survey to determine the care to be covered. Employer contributions are financed on a pay-as-you-go basis. The city maintains a fund dedicated to providing resources for fire fighter benefits.

For 2010, the city paid medical insurance premiums of \$153,163 for pre-age 65, and \$91,243 for post-age 65. Other medical payments paid by the city are for all eligible medical services not paid for by the insurance.

The city's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the city's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the city's OPEB obligation to the Retiree Health Plan:

	Police	Fire	Total
Annual required contribution	\$ 158,428	\$ 219,022	\$ 377,450
Interest on net OPEB obligation	6,715	8,862	15,577
Adjustment to annual required contribution	<u>(16,939)</u>	<u>(20,792)</u>	<u>(37,732)</u>
Annual OPEB cost (expense)	148,204	207,092	355,295
Contributions made	<u>110,495</u>	<u>143,111</u>	<u>253,606</u>
Increase in net OPEB obligation	37,708	63,981	101,689
Net OPEB obligation-Beginning of year	<u>319,763</u>	<u>422,000</u>	<u>741,763</u>
Net OPEB obligation-End of year	<u>\$ 357,472</u>	<u>\$ 485,981</u>	<u>\$ 843,453</u>

The city's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 and the two preceding fiscal years were as follows:

Police Fund  
Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contributions	Annual OPEB Costs Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2008	165,223	127,896	77%	269,769
12/31/2009	161,937	111,942	69%	319,763
12/31/2010	148,204	110,495	75%	357,472

Firemans Pension  
Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contributions	Annual OPEB Costs Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2008	196,976	119,766	61%	334,977
12/31/2009	218,446	131,423	60%	422,000
12/31/2010	207,092	143,111	69%	485,981

Funding Status and Funding Progress. As of December, 2010, the actuarial accrued liability for benefits was \$7,261,415 which has a funded portion of \$529,343 from the Fireman Pension Fund.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

There are no active employees. The historical age of retirement for regular retirees is 55 years of age and the city's average is 51 years of age. Employees who retired on disability were excluded from this calculation.

Life expectancies are based on mortality tables at the Office of the State Actuary for Washington ([osa.leg.wa.gov](http://osa.leg.wa.gov)). Life expectancies that included partial years were rounded to the nearest whole year. The calculation of post employment health insurance coverage for each year in the worksheet is based on the assumption that all participants will live until their expected ages as displayed in the mortality tables.

The expected rate of increase in healthcare insurance premiums is based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services, as published in National Health Care Expenditures Projection Tables, Table 3: National Health Expenditures, Aggregate & Per Capita Amounts, Percent Distribution, and Average Annual Percent Change by Source of Funds: Selected Calendar Years 2003 to 2018, published March 2008 by the Health Care Financing Administration ([www.cms.hhs.gov](http://www.cms.hhs.gov)).

The assumed long term earnings rate on current and expected investments that are expected to be used in financing the payment of benefits is 3%.

Inflation rate- The expected long-term inflation assumption for 2010 of .6 percent was based on projected changes in the Consumer Price Index for Urban Wage earners and Clerical Workers (CPI-W) from the Office of the state Actuary for Washington ([osa.leg.wa.gov](http://osa.leg.wa.gov)).

Payroll growth rate- The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the city's short-term investment portfolio, a discount rate of 2.1 percent was used. In addition, the actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. The funded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2010 was twenty-five years.

## **NOTE 16 - OTHER DISCLOSURES**

### Prior Period Adjustment

In 2010 it was determined that the city was paying expenses for OPEB obligations for Firemen out of the Fireman's Pension Trust Fund. The decision was made to also book the yearly amortization of OPEB liability out of the same trust fund. Therefore the previous years obligations of \$419,384 was moved from the General Fund to the Fireman's Pension Trust Fund.

### Subsequent Events

The City and Grant County were in litigation in regards to a Revenue Sharing Agreement (RSA). December 15, 2010 the City and the County signed a Settlement Agreement. The City is obligated to pay \$8,500,000 over five years starting in 2011. The RSA was terminated as of the date of the Settlement Agreement.

The City's case, Moses Lake v. EPA, Boeing, and Department of Defense, was closed on March 28, 2011. The City's liability as of that date was a one-time payment of \$750,000 which consisted of \$562,500 to the US EPA and \$187,500 to the US Army Corps of Engineers. The City's obligation is covered by insurance. The United States on behalf of Federal Agencies, shall pay the City of Moses Lake \$2,961,531.97 in reimbursement of the City of Moses Lake's past response costs and the City's claim for attorney's fees and costs, and pay interest, accruing from the effective date.

**CITY OF MOSES LAKE**  
**Required Supplementary Information**  
**Pension Funds**

Schedule of Funding Progress  
for the LEOFF 1 Retiree Health Plan

Police Fund

Actuarial Valuation Date	Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL)- Unit Credit Cost <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>[(b-a)/c]</u>
12/31/2008	\$ -	\$ 3,871,293.00	\$ 3,871,293.00	0%	\$ 59,208.00	6538%
12/31/2009	-	2,956,033.00	2,956,033.00	0%	0	0%
12/31/2010	-	3,047,854.00	3,047,854.00	0%	0	0%

Fireman Fund

Actuarial Valuation Date	Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL)- Unit Credit Cost <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>[(b-a)/c]</u>
12/31/2008	\$ 177,619.00	\$ 4,780,126.00	\$ 4,602,507.00	4%	\$ 54,994.00	8369%
12/31/2009	194,387.00	4,240,690.00	4,046,303.00	5%	0	0%
12/31/2010	529,343.00	4,742,904.00	4,213,561.00	11%	0	0%

**CITY OF MOSES LAKE**  
**Required Supplementary Information**

**Condition Assessments and Preservation of Infrastructure Eligible for Modified Approach**

Streets

The City has taken a proactive approach with its maintenance practices associated with its streets and roads. The City performs condition assessments on its system of streets through the City Pavement Management System. This program generates a pavement condition rating (PCR) for each segment of primary streets, secondary streets, tertiary collectors and residential streets. There is a numerical index from zero to 100 (0 - 100) that represents the pavement's functional condition based on the quantity, severity, and type of visual distress, such as cracking. Based on the PCR valuation, condition ratings are assigned as follows: a PCR of less than 20 is considered to be in "very poor" condition; a PCR of greater than 20 but less than 40 is defined as having a "poor" status; a PCR of between 40 and 60 is regarded as being in "fair" condition; a PCR of 60 to 80 is evaluated as being in "good" status and a score from 80 to 100 is defined as being in "very good" condition. Condition assessments are undertaken at least once every three years. The three most recent complete condition assessments of the City's streets are shown below.

<u>Condition rating</u>	<u>2010-2009</u>		<u>2008-2006</u>		<u>2005-2003</u>	
	<u>Feet</u>	<u>%</u>	<u>Feet</u>	<u>%</u>	<u>Feet</u>	<u>%</u>
VERY POOR	16,247	2.31%	24,932	4.20%	8,090	1.49%
POOR	3,980	0.57%	30,790	5.19%	20,465	3.78%
FAIR	31,465	4.48%	62,906	10.60%	79,300	14.64%
GOOD	109,243	15.54%	154,468	26.03%	133,996	24.73%
VERY GOOD	542,054	77.11%	320,411	53.99%	299,955	55.36%
TOTAL	<u>702,989</u>	<u>100.00%</u>	<u>593,507</u>	<u>100.00%</u>	<u>541,806</u>	<u>100.00%</u>

<u>PCR score</u>	<u>2010-2009</u>		<u>2008-2006</u>		<u>2005-2003</u>	
	<u>Feet</u>	<u>%</u>	<u>Feet</u>	<u>%</u>	<u>Feet</u>	<u>%</u>
PCR 0 to 39	20,227	2.88%	55,722	9.39%	28,555	5.27%
PCR 40 to 100	<u>682,762</u>	<u>97.12%</u>	<u>537,785</u>	<u>90.61%</u>	<u>513,251</u>	<u>94.73%</u>
Total	<u>702,989</u>	<u>100.00%</u>	<u>593,507</u>	<u>100.0%</u>	<u>541,806</u>	<u>100.0%</u>

It is the Policy of the City Engineering Department to maintain 70 percent of the streets at a PCR of 40 or higher. The table below shows the length and percentage of feet of streets that meet the 40 target level. The four classifications of streets that the City has are primary, secondary, tertiary collectors and residential. There is a state highway which is considered a primary street that bisects the City which is maintained and evaluated by the State of Washington, Department of Transportation. The majority of streets that fall below the PCR of 40 are residential streets. A portion of the streets that are under the target level of 40 is a primary street that was recently annexed into the City. The majority of the remaining streets under the PCR of 40 is a section of the city that has no sewer services at this time. Once funding is available to extend utilities to the particular area it is the city's plan to construct paved streets and maintain them at a level consistent with the remainder of the city.

Below is information on budgeted and actual expenditures incurred to maintain and preserve the street system at or above the minimum acceptable condition level from 2004 to 2010.

	Amounts in Thousands						
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Budgeted	550	700	1,400	1,295	975	1,376	438
Expended	859	778	836	655	291	1,096	194

The budgeted amount is equivalent to the anticipated amount needed to maintain streets up to the recommended condition level. Underspensing of budgeted amounts occurs when streets projects are removed from the work schedule due to conflicts with other major construction work; lowering of priority due to cost considerations brought on by excessive bids over estimates or shortages of sufficient contractor bids; and through direction from Council.

### Bridge

The City currently maintains one simple structure bridge. Physical inspections to determine the surface and underneath condition of the bridge and the degree of wear and deterioration are carried out every two years by City staff. Underwater inspections are contracted by the State Department of Transportation once every five years. Inspections reveal deficiencies in the bridge such as steel corrosion, damaged pillars, cracked concrete, deteriorated bridge decks and erosion. These are documented in an inspection report provided by the State Department of Transportation along with recommended repairs and needed services.

A key element in determining the condition of the bridge is the sufficiency rating (SR), the numerical value which indicates a bridge's relative ability to serve its intended purpose, measure considered by state and federal governments as the basis for establishing eligibility and priority for the bridge replacement and rehabilitation. The numerical rating is based on the summation of four calculated values: structural adequacy and safety, serviceability and functional obsolescence, essentiality for public use, and special reductions. The value ranges from 100 (newly constructed bridge) to 0 (bridge incapable of carrying traffic).

In general, the lower the sufficiency rating, the higher the priority. To qualify for replacement, a bridge must have a sufficiency rating of less than 50 and be structurally deficient or functionally obsolete. To be eligible for rehabilitation, a bridge must have a SR of 80 or less and be structurally deficient or functionally obsolete. A structurally deficient bridge is defined as one whole condition or design has impacted its ability to adequately carry intended traffic loads. A functionally obsolete bridge is one in which the deck geometry, load carrying capacity, clearance, or approach roadway alignment has reduced its ability to adequately meet the traffic needs below accepted design standards.

Below are the two most recent sufficiency ratings of the Alder St. causeway.

	<u>sufficiency rating</u>
2001	70 %
2006	69 %

It is the policy of the City to maintain bridges in such a manner that the sufficiency rating is 20 or higher. A rating of 20 or less is usually indicative of a bridge with structural deficiency. The most common remedy is full replacement or rehabilitation of the bridge. As of December 31, 2006 the City's lone bridge was given a 'good' evaluation. With annual surface inspections and maintenance, as well as minimal water flow under the bridge it is anticipated that the bridge will continue to have a favorable evaluation well into the future. With little change in the last two ratings the results of the City's efforts to maintain the bridge in above standard condition are evident.

Because the City's bridge is relatively small (146 feet long) the budget and actual expended amounts to maintain and preserve the bridge are included in the budget and expended amounts for streets. Historically there has been no identifiable budget or expenditure for the maintenance of the lone bridge.

Budget amounts are the anticipated amount needed to maintain and preserve the bridge up to the required condition level. The traffic, weight loads, aging and weather extremes all have an effect on the condition and maintenance level of the bridge.



## **ABOUT THE STATE AUDITOR'S OFFICE**

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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.

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