

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

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

Audit Period  
**January 1, 2006 through December 31, 2006**

**Report No. 72885**

Issue Date  
**July 6, 2007**



Washington \_\_\_\_\_  
***State Auditor***  
\_\_\_\_\_  
Brian Sonntag



**Washington State Auditor  
Brian Sonntag**

July 6, 2007

Mayor and 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.

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

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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Grant County  
January 1, 2006 through December 31, 2006**

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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, 2006 through December 31, 2006**

Mayor and 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, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 24, 2007.

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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of 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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **COMPLIANCE AND OTHER MATTERS**

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

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

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

A handwritten signature in black ink, appearing to read "Brian Sonntag", is positioned above the printed name and title.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

May 24, 2007

# Independent Auditor's Report on Financial Statements

## **City of Moses Lake Grant County January 1, 2006 through December 31, 2006**

Mayor and 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, 2006, 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, 2006, 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, and infrastructure modified approach information on pages 67 through 68 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

May 24, 2007

# Financial Section

## City of Moses Lake Grant County January 1, 2006 through December 31, 2006

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

Management's Discussion and Analysis – 2006

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

Statement of Net Assets – 2006

Statement of Activities – 2006

Balance Sheet – Governmental Funds – 2006

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2006

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2006

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2006

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

Condition Assessments and Preservation of Infrastructure Eligible for Modified Approach – 2006



## 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, 2006. 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.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Moses Lake exceeded its liabilities at the close of the most recent fiscal year by \$106,055 (net assets). Of this amount, \$15,247 (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 \$6,634.
- As of the close of the current fiscal year, the City of Moses Lake's governmental funds reported combined ending fund balances of \$6,738, an increase of \$1,972 in comparison with the prior year. Almost the entire amount, \$6,284, 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 \$2,552, or 21% of total general fund expenditures.
- With new debt from the 2006 Limited tax general obligation Bond the City of Moses Lake's total debt increased by \$5,573 (20%) during the current fiscal year.

### 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 comprise 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, 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 seventeen individual governmental funds. The City's three major governmental funds, the general fund, street fund and 2006 project fund are presented separately in the governmental fund balance sheet, and the governmental fund 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, 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 uses internal systems to account for its fleet of vehicles, self insurance and 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, 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. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

**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 on infrastructure assets reported using the modified approach. The required supplementary information immediately follows the notes to the financial statements in the Basic Statements section of this report.

**Combining Statements.** The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented in a separate section immediately following the required supplemental information.

## 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 \$106,055 at December 31, 2006.

#### City of Moses Lake's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$10,701	\$8,774	\$9,276	\$14,765	\$19,977	\$23,539
Capital assets	60,263	53,936	59,021	49,579	119,283	103,515
Total assets	<u>70,964</u>	<u>62,710</u>	<u>68,297</u>	<u>64,344</u>	<u>139,261</u>	<u>127,054</u>
Long-term liabilities	10,124	5,665	17,996	17,425	28,120	23,090
Other liabilities	3,294	2,881	1,793	1,663	5,086	4,544
Total liabilities	<u>13,417</u>	<u>8,546</u>	<u>19,789</u>	<u>19,088</u>	<u>33,206</u>	<u>27,634</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	49,249	47,432	40,642	31,720	89,892	79,152
Restricted	-	-	916	7,610	916	7,610
Unrestricted	8,297	6,732	6,949	5,927	15,247	12,659
Total net assets	<u>\$57,547</u>	<u>\$54,164</u>	<u>\$48,508</u>	<u>\$45,257</u>	<u>\$106,055</u>	<u>\$99,421</u>

The largest portion of the City of Moses Lake's net assets (85 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 (1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$15,247) 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 same situation held true for the prior fiscal year. 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 increased by \$6.634 million in 2006. The increase was slightly more from governmental activities (51%) than business-type activities (49%).

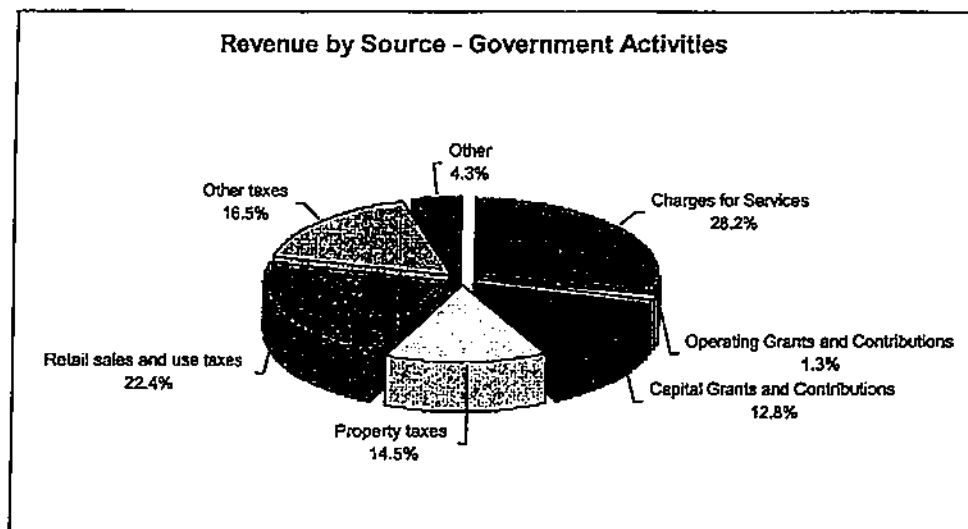
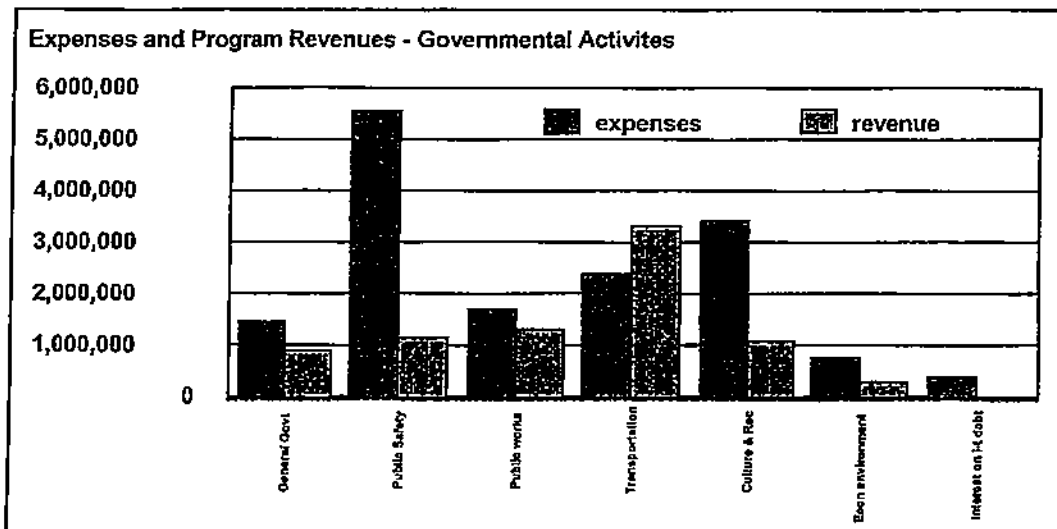
The following is a summarized version of the city's changes in net assets. The table shows the revenues, expenses, and related changes in net assets in table form for the governmental activities autonomous from the business-type activities for 2006.

### City of Moses Lake Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues:</b>						
Program revenue:						
Charges for services	\$5,387	\$5,225	\$10,530	\$9,719	\$15,917	\$14,944
Operating grants and contributions	248	185	-	-	248	185
Capital grants and contributions	2,448	668	2,733	1,051	5,181	1,719
General revenue						
Property taxes	2,780	2,572	-	-	2,780	2,572
Sales taxes	4,287	3,798	-	-	4,287	3,798
Other taxes	3,149	2,961	-	-	3,149	2,961
Other	736	403	2822	2,323	3,558	2,726
<b>Total revenues</b>	<b>19,035</b>	<b>15,812</b>	<b>16,085</b>	<b>13,093</b>	<b>35,120</b>	<b>28,905</b>
<b>Expenses:</b>						
General government	1,467	1,286	-	-	1,467	1,286
Public safety	5,577	4,991	-	-	5,577	4,991
Public works	1,708	1,497	-	-	1,708	1,497
Transportation	2,392	2,534	-	-	2,392	2,534
Culture & recreation	3,441	3,287	-	-	3,441	3,287
Economic environment	771	625	-	-	771	625
Interest on long-term debt	390	311	-	-	390	311
Water/sewer utility	-	-	9,499	7,516	9,499	7,516
Sanitation	-	-	1,725	1,806	1,725	1,806
Ambulance	-	-	1,486	1,542	1,486	1,542
Airport	-	-	29	31	29	31
<b>Total expenses</b>	<b>15,746</b>	<b>14,531</b>	<b>12,739</b>	<b>10,895</b>	<b>28,485</b>	<b>25,426</b>
<b>Increase in net assets before transfers</b>	<b>3,289</b>	<b>1,281</b>	<b>3,346</b>	<b>2,198</b>	<b>6,635</b>	<b>3,479</b>
<b>Transfers</b>	<b>93</b>	<b>510</b>	<b>(93)</b>	<b>(510)</b>	<b>-</b>	<b>-</b>
<b>Increase in net assets</b>	<b>3,382</b>	<b>1,791</b>	<b>3,253</b>	<b>1,688</b>	<b>6,635</b>	<b>3,479</b>
<b>Net assets 01/01</b>	<b>54,164</b>	<b>52,373</b>	<b>45,256</b>	<b>43,613</b>	<b>99,420</b>	<b>95,986</b>
Prior period adjustment	-	-	-	(46)	-	(46)
change in reserves	-	-	-	-	-	-
<b>Net assets 12/31</b>	<b>\$57,546</b>	<b>54,164</b>	<b>\$48,509</b>	<b>\$45,256</b>	<b>\$106,055</b>	<b>\$99,420</b>

Governmental activities. Governmental activities increased the City of Moses Lake's net assets by \$3,382 thereby accounting for 51% of the total growth in the net assets of the City of Moses Lake. Key elements of this increase are as follows:

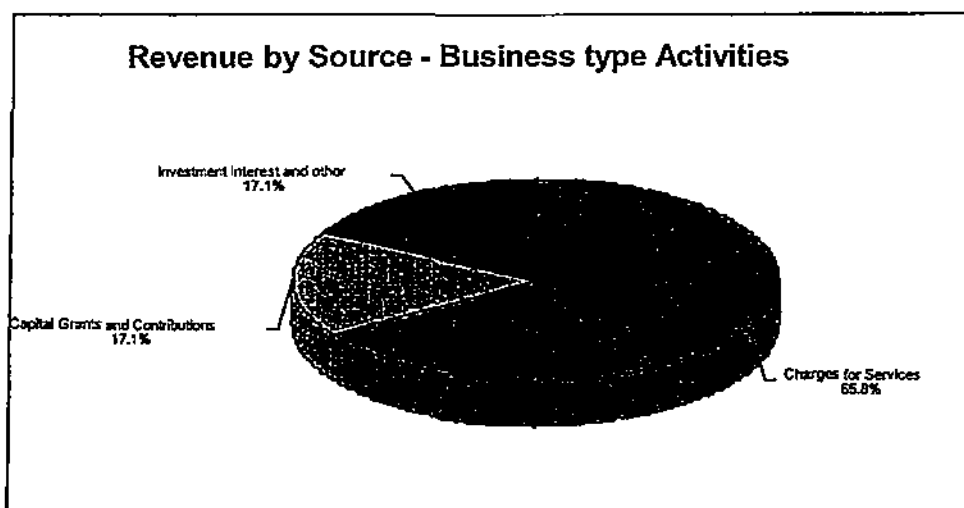
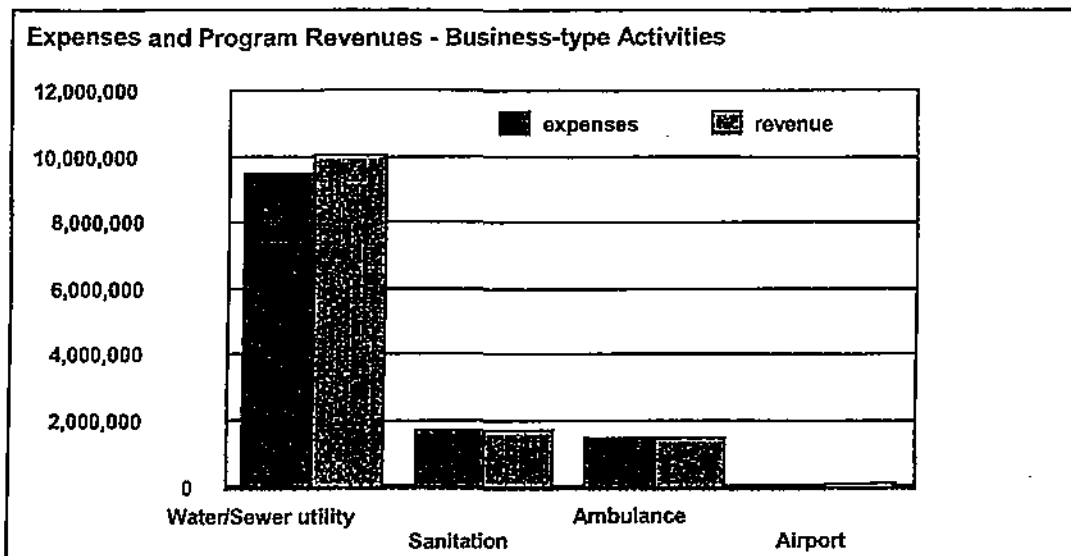
- Sales taxes increased by \$489 (12%) during the year. Most of this increase is from economic recovery and construction in and around the City limits.
- The largest increase was \$1,786 (266%) in capital contributions was a result of assets (streets and improvements) contributed by developers from new developments
- The largest increase (\$586) in expenditures was from public safety. The increases were due to a substantial increase in health insurance premiums and rates charged internally for vehicle usage.



For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

**Business-type activities.** Business-type activities increased the City of Moses Lake's net assets by \$3,252, accounting for 49% of the total growth in the government's net assets. Key elements of this increase are as follows.

- Charges for services for business-type activities increased by \$811 (8%). The Water and Sewer Utility accounted \$611 of the increase.
- Capital contributions from developers were a significant revenue source for the Water and Sewer Utility during the current fiscal year, producing \$1,682 in revenue.
- The City received a substantial insurance recovery amount (\$2,453) which was for operating expenses incurred in the Operations and Maintenance yard cleanup.
- Most of the \$1,983 operating expense increase can be attributed to the Operations and Maintenance yard clean up.



## FINANCIAL ANALYSIS OF THE GOVERNMENT'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 reported combined ending fund balances of \$6,738, an increase of \$1,973 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 (\$101), for debt service payments (\$311) and a variety of other restricted purposes (\$42).

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 \$2,552 while the total fund balance reached was \$2,652. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 21 percent of total General Fund expenditures, while total fund balance represents 22 percent of that same amount.

The fund balance of the City of Moses Lake's General Fund increased by \$248 during the current fiscal year. Key factors in this growth are as follows:

- An increase in investment interest, and licenses and permits of \$293 and \$253 respectively.
- The increase in taxes of \$711 and charges for services of \$187 was offset by an increase in operating expenses within the Police, Fire, and Parks departments of \$1,467.

**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 four enterprise funds, and five internal service funds.

Unrestricted net assets of the Water and Sewer Utility at the end of the year amounted to \$3,866, and those for the Sanitation Utility amounted to \$3,935. The total of the two funds accounted for



16% 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.

## GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were minor. The majority of the budget change (\$434) came from police and fire which was attributable to new union contracts which elevated wages and benefits. The other significant increases of \$172 were allocated between public works for legal fees, clean up work, and construction of the operations complex and parks and recreations for wages. Of the increases, \$571 was to be funded by an increase in investment interest and \$255 from additional permitting fees.

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital assets.** The City of Moses Lake's investment in capital assets for its governmental and business type activities as of December 31, 2006, amounts to \$119,283 (net of accumulated depreciation). 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 15% (a 11 increase for governmental activities and a 19% increase for business-type activities).

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

- Construction is almost complete on the Operations Complex for a total project cost of \$7,204.
- A new ice rink was completed during the year for a final cost of \$1,452.
- A downtown revitalization project is close to completion. Costing \$1,900 to date.
- New fire truck was purchased during the fiscal year at a cost of \$128.
- Numerous city vehicles were purchased during the year at a cost of \$127 at year end.
- A new Dump truck was purchased for a cost of \$59.

### City of Moses Lake's Capital Assets

(net of depreciation)

actual amounts

	Government Activities	Business-type Activities	Total
Land and land improvements	\$15,289,330	\$1,044,634	\$16,333,964
Buildings	12,158,750	18,083,544	30,242,294
Machinery and equipment	2,087,457	1,271,704	3,359,160
Infrastructure	26,682,066	30,989,657	57,671,723
Construction in progress	4,045,039	7,631,197	11,676,236
Total assets	<u>\$60,262,642</u>	<u>\$59,020,735</u>	<u>\$119,283,377</u>

Additional information regarding the capital assets of the City of Moses Lake can be found in note 6 .

**Infrastructure.** The City of Moses Lake has elected to use the modified approach as defined by GASB statement 34 for reporting it's 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 it's 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 it's 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 biennial assessments establishing the condition level of the assets, the City makes annual estimates of the cost to maintain it's streets which are also reported in the City's annual Capital Improvement Program. For 2006 the City projected \$975 for road maintenance. The actual amount expended was \$272.

For the year there was no significant changes in the condition levels of the streets. With mild weather patterns the condition level of the streets were 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 \$18,711. Of this amount, \$11,440 comprises debt backed by the full faith and credit of the government and \$7,015 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	\$ 10,423,333	\$1,016,667	\$ 11,440,000
Special assessment with Governmental commitment	255,979	-	255,979
Revenue debt	-	7,015,000	7,015,000
	<u>\$ 10,679,312</u>	<u>\$8,031,667</u>	<u>\$ 18,710,979</u>

The City of Moses Lake's total long-term debt increased by \$5,446 (21%) during the current fiscal year. The increase was due entirely to a new \$6,100 LTGO bond being added.

The City of Moses Lake maintains a "AAA" rating from Standard & Poor's by carrying Bond insurance. The Special Assessment bonds are unrated.

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 2006 was \$988,572 and the remaining debt capacity is as follows:

	(Actual amounts)
General	\$11,484,034
Open Space/Park Facilities	24,715,293
Utilities	<u>24,715,293</u>
Total	<u>\$60,912,620</u>

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 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. This growth was sustained and advanced in 2006. This growth translates into greater revenues attributable in part to increased sales taxes, property taxes, permit fees, and the like. Additionally, higher interest rates bolsters the interest income the city receives from its conservative investments. The aforementioned factors were considered in the preparation of the city's 2007 budget.

With the recovery of the local economy, which is providing governmental revenue, at a previously unrealized rate, the city can anticipate providing services at the rate now provided and perhaps increase those services in some areas. In reviewing the building activity in the local economy currently in progress and anticipated for the future, based upon submittals made to the city, it is anticipated that the local economy will continue to improve in 2007 and perhaps for several years into the future, which supports the assumption that current service levels can be maintained and perhaps increased.

Sales tax represents a significant revenue component for the city and a barometer of the local economy. Retail sales are increasing at a rate surpassing sales in some of the previous best sales years in the city. Increased retail sales translates into increased retail sales taxes and an increase in the city's general or operating fund. In 2006 the city's sales taxes increased by approximately 13%, well above the inflation rate. It is anticipated that the sales taxes the city receives in 2007 will match or exceed those received in 2006.

As a result of increasing interest rates, the city's interest on investment income on available cash has reached or exceeded the highest amounts the city received in years prior to 2001. This interest or investment income is receipted into the General or Operating Fund and helps support services funded by the General or Operating Fund. Interest income is a significant portion of the city's General or Operating Fund and with interest rates anticipated to remain at the current levels, support for services provided by the city's General or Operating Fund should remain stable.

The increase in investment earnings has a significant and positive effect on the General or Operating Fund. The above factors, and many more, have allowed for the expenditures in the 2007 budget. The city has maintained its existing level of service to its citizens and has increased its investment in its infrastructure as a result of a growth in the economy which is considered to continue. Furthermore, the city, with increasing revenues, has begun to replenish its reserves which it will continue to attempt to do.

Several industrial concerns in and around the city have announced and/or begun expansions. These expansions 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 eventually affect retail sales and, therefore, the city's retail sales tax receipts.

Another indicator of the status of the city's economy is the amount of residential building activity. Property is being developed and residential living units are being constructed in the City of Moses Lake at a rate not seen in the past. The city currently has about 1,000 lots available for residential development and anticipates the same number being made available in the near future with yet more being planned in years to come. This growth bodes well for the city in terms of property taxes and retail sales taxes. This residential growth seems to be supported by many factors, including the in-progress and announced industrial development.

Property tax increases have been limited by voter approved initiative, which only allows a 1% levy increase for 2007, which is below the rate of inflation. However, property taxes generally have increased because of annexations and new construction within the city. In 2005 the city realized approximately \$35 million of permitted building activity. In 2006 the city realized approximately \$70 million in permitted building activity. The city anticipates meeting or exceeding the permitted building activity in 2007. The building activity eventually will translate into a higher assessed valuation in the city which will generate additional property taxes up and above the 1% limitation on existing property taxation.

While the city has experienced some retail closures, new retail businesses have opened and located in Moses Lake which has lessened the impact of the closures and reductions. This seems to be reflected in the city's retail sales taxes.

During the current fiscal year, the unreserved fund balance in the General Fund increased. It is expected that the fund balances will be retained through 2007. Except for a small allowed property tax increase, no other tax increases were included in preparing the 2007 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 2007 fiscal year.

The water and sewer utility rates were increased for the 2007 budget year. The water and sewer rates were increased by the rate of inflation for all customers pursuant to city ordinance. The water and sewer rates affected both residential and industrial consumers by approximately the same percentage. The rate increases were necessary to sustain the services for 2007 fiscal year by the water and sewer utility.

The projected outlook for the City of Moses Lake and surrounding area is positive as more building permits are issued and many 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, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 9,522,671	\$ 3,139,353	\$ 12,662,025
Cash with escrow agent	141,680	-	141,680
Receivables (net of allowances for uncollectibles)	500,077	1,522,564	2,022,641
Internal balances	335,840	(335,840)	-
Inventories and prepaid items	138,074	408,112	546,185
Deferred charges	61,078	131,435	192,514
Restricted assets:			
Cash	-	4,408,100	4,408,100
Interest and other receivables	1,705	2,632	4,337
Capital assets (net of accumulated depreciation):			
Land and land improvements	15,289,330	1,044,634	16,333,964
Buildings and other improvements	12,158,750	18,083,544	30,242,294
Machinery and equipment	2,087,457	1,271,704	3,359,160
Infrastructure	26,682,066	30,989,657	57,671,723
Construction in progress	4,045,039	7,631,197	11,676,236
Total assets	<u>70,963,766</u>	<u>68,297,093</u>	<u>139,260,859</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	2,134,546	739,963	2,874,509
Accrued interest	191,419	169,712	361,131
Unearned revenues	9,405	615	10,021
Noncurrent liabilities			
Due within one year	958,142	882,652	1,840,794
Due in more than one year	10,123,515	17,996,155	28,119,670
Total liabilities	<u>13,417,027</u>	<u>19,789,098</u>	<u>33,206,125</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	49,249,265	40,642,416	89,891,681
Restricted for:			
Debt service	-	916,401	916,401
Unrestricted	8,297,474	6,949,177	15,246,651
Total net assets	<u>\$ 57,546,739</u>	<u>\$ 48,507,994</u>	<u>\$ 106,054,733</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, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary Government:</b>							
Government activities:							
General government	\$ 1,467,300	\$ 898,920	\$ 400	\$ -	\$ (567,980)	\$ -	\$ (567,980)
Public safety	5,577,325	1,057,734	90,128	13,074	(4,416,390)	-	(4,416,390)
Public works	1,707,559	1,324,799	-	-	(382,761)	-	(382,761)
Transportation	2,391,960	872,818	19,000	2,434,594	934,452	-	934,452
Culture and recreation	3,441,019	1,007,845	84,960	-	(2,348,213)	-	(2,348,213)
Economic Environment	770,961	231,363	53,978	-	(485,620)	-	(485,620)
Interest on long-term debt	389,505	-	-	-	(389,505)	-	(389,505)
Total governmental activities	15,745,029	5,393,478	248,467	2,447,667	(7,656,017)	-	(7,656,017)
<b>Business-type activities:</b>							
Water/Sewer utility	9,498,947	9,755,012	-	2,728,010	-	2,984,075	2,984,075
Sanitation	1,725,210	1,711,746	-	-	-	(13,465)	(13,465)
Ambulance	1,485,987	1,460,040	-	-	-	(25,947)	(25,947)
Airport	29,377	56,389	-	4,754	-	31,767	31,767
Total business-type activities	12,739,521	12,983,187	-	2,732,764	-	2,976,430	2,976,430
<b>Total primary government</b>	<b>\$ 28,485,149</b>	<b>\$ 18,376,665</b>	<b>\$ 248,467</b>	<b>\$ 5,180,431</b>	<b>(7,656,017)</b>	<b>2,976,430</b>	<b>(4,679,587)</b>
General revenues:							
Property taxes					2,780,139	-	2,780,139
Retail sales and use taxes					4,286,527	-	4,286,527
Other taxes					3,149,254	-	3,149,254
Interest and investment earnings					727,869	368,985	1,096,855
Miscellaneous					1,231	-	1,231
Transfers, internal activities					93,332	(93,332)	-
Total general revenues and transfers					11,038,353	276,653	11,314,007
Changes in net assets					3,382,335	3,252,083	6,634,420
Net assets - beginning					54,164,403	45,255,911	99,420,314
Net assets - ending					\$ 57,546,739	\$ 48,507,994	\$ 106,054,733

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

# CITY OF MOSES LAKE

## Balance Sheet Governmental Funds December 31, 2006

	General	Street	Capital Projects 2006	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,731,053	\$ 544,593	\$ 1,784,495	\$ 2,295,134	\$ 7,355,275
Receivables (net of allowance for uncollectibles):					
Taxes	202,058	-	-	-	202,058
Assessments	-	-	-	392,350	392,350
Customer accounts	40,261	6,877	-	17,858	64,996
Unbilled services	13,201	-	-	7,859	21,060
Other receivables	37,399	3,009	-	-	40,408
Due from other funds	-	-	-	300,000	300,000
Due from other governments	19,883	-	-	6,803	26,686
Prepaid expenses	57,895	25,106	-	-	83,001
Total assets	<u>\$ 3,101,749</u>	<u>\$ 579,585</u>	<u>\$ 1,784,495</u>	<u>\$ 3,020,004</u>	<u>\$ 8,485,833</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 31,577	\$ 34,834	\$ 493,482	\$ 4,087	\$ 563,980
Salaries and benefits payable	168,158	7,206	-	590	175,953
Revenues collected in advance	-	-	-	9,405	9,405
Interfund loans payable	-	-	-	346,866	346,866
Deferred revenue	249,711	9,726	-	392,350	651,786
Total liabilities	<u>449,446</u>	<u>51,765</u>	<u>493,482</u>	<u>753,298</u>	<u>1,747,990</u>
<b>Fund balances:</b>					
Reserved for:					
Grants/donations	-	-	-	16,651	16,651
Debt service	-	-	-	310,968	310,968
Petty cash and prepaid expenses	75,420	25,106	-	-	100,526
Vacation/sick leave payouts	25,000	-	-	-	25,000
Unreserved, reported in:					
General fund	2,551,883	-	-	-	2,551,883
Special revenue funds	-	502,714	1,291,013	1,939,088	3,732,815
Total fund balances	<u>2,652,303</u>	<u>527,820</u>	<u>1,291,013</u>	<u>2,266,707</u>	<u>6,737,843</u>
Total liabilities and fund balances	<u>\$ 3,101,749</u>	<u>\$ 579,585</u>	<u>\$ 1,784,495</u>	<u>\$ 3,020,004</u>	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.					54,677,992
Other long-term liabilities that are not available to be collected in current period revenues and, therefore are deferred in the funds.					664,573
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 in the statement of net assets.					4,298,158
Some liabilities, including bonds, loans, and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.					(8,865,871)
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.					34,044
Net assets of governmental funds					<u>\$ 57,546,739</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 Governmental Funds For the Year Ended December 31, 2006

	General	Streets	Capital Projects 2006	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 9,158,407	\$ -	\$ -	\$ 1,057,513	\$ 10,215,921
Licenses and permits	832,251	165,817	-	-	998,068
Intergovernmental revenues	279,640	447,998	-	247,739	975,376
Charges for services	2,968,574	7,193	-	72,059	3,047,826
Fines and forfeits	6,697	-	-	37	6,733
Interest earnings	688,803	679	-	38,071	727,553
Rents and royalties	277,838	-	-	-	277,838
Contributions/donations	-	-	-	112,218	112,218
Assessments	-	-	-	141,717	141,717
Miscellaneous	7,740	1,000	-	17,360	26,099
Total revenues	<u>14,219,950</u>	<u>622,687</u>	<u>-</u>	<u>1,686,713</u>	<u>16,529,350</u>
<b>EXPENDITURES</b>					
Current:					
General government	1,223,170	-	-	-	1,223,170
Public safety	5,224,456	-	-	169,542	5,393,999
Public works	1,672,627	-	-	-	1,672,627
Transportation	-	1,598,933	-	791,545	2,390,479
Economic environment	635,677	-	-	121,972	757,649
Culture and recreation	2,933,737	-	-	250,673	3,184,409
Capital outlay	29,662	-	3,710,642	607,353	4,347,657
Debt service:					
Principal	85,327	-	-	359,045	444,372
Interest and debt issue costs	23,721	-	-	140,671	164,392
Total expenditures	<u>11,828,376</u>	<u>1,598,933</u>	<u>3,710,642</u>	<u>2,440,801</u>	<u>19,578,753</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,391,574</u>	<u>(976,247)</u>	<u>(3,710,642)</u>	<u>(754,088)</u>	<u>(3,049,403)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	343,788	1,086,300	-	1,344,571	2,774,659
Transfers (out)	(2,503,643)	-	-	(302,684)	(2,806,327)
Sales of capital assets	16,837	-	-	-	16,837
Proceeds of G.O. bonds	-	-	5,001,655	81,678	5,083,333
Discount on GO bonds issued	-	-	-	(46,761)	(46,761)
Total other financing sources (uses)	<u>(2,143,018)</u>	<u>1,086,300</u>	<u>5,001,655</u>	<u>1,076,804</u>	<u>5,021,741</u>
Net change in fund balances	<u>248,555</u>	<u>110,053</u>	<u>1,291,013</u>	<u>322,716</u>	<u>1,972,338</u>
Fund balances-beginning	2,403,748	417,767	-	1,943,990	4,765,505
Fund balances-ending	<u>\$ 2,652,303</u>	<u>\$ 527,820</u>	<u>\$ 1,291,013</u>	<u>\$ 2,266,707</u>	<u>\$ 6,737,843</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, 2006

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

Net changes in fund balances-total governmental funds:	\$ 1,972,338
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.	3,961,564
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, disposals, and donations) is to increase net assets.	2,353,487
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.	(4,557,283)
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.	(359,406)
Accrued interest revenue in the statement of activities does not provide current financial resources and is not reported as revenue in governmental funds.	317
Reclassification of transfer between governmental funds and fiduciary funds	(125,000)
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.	136,320
	<u>\$ 3,382,336</u>

**CITY OF MOSES LAKE****Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual****General Fund****For the Year Ended December 31, 2006**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 8,621,300	\$ 8,621,300	\$ 9,158,407	\$ 537,107
Licenses and permits	484,000	739,000	832,251	93,251
Intergovernmental revenues	115,800	246,800	279,640	32,840
Charges for services	2,575,400	2,767,300	2,968,574	201,274
Fines and forfeits	4,200	4,200	6,697	2,497
Interest earnings	305,000	876,700	688,803	(187,897)
Rents and royalties	260,900	276,300	277,838	1,538
Miscellaneous	5,800	5,800	7,740	1,940
Total revenues	<u>12,372,400</u>	<u>13,537,400</u>	<u>14,219,950</u>	<u>682,550</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,239,800	1,274,600	1,223,170	51,430
Public safety	5,137,200	5,571,300	5,224,456	346,844
Public works	1,502,300	1,674,000	1,672,627	1,373
Economic environment	583,800	638,600	635,677	2,923
Culture and recreation	2,893,800	3,006,300	2,933,737	72,563
Capital outlay	8,000	20,600	29,662	(9,062)
Debt service:				
Principal	85,400	85,400	85,327	73
Interest and debt issue costs	29,700	29,700	23,721	5,979
Total expenditures	<u>11,480,000</u>	<u>12,300,500</u>	<u>11,828,376</u>	<u>472,124</u>
Excess of revenues over expenditures	<u>892,400</u>	<u>1,236,900</u>	<u>2,391,574</u>	<u>1,154,674</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	300,000	300,500	343,788	43,288
Transfers out	(5,999,000)	(2,499,000)	(2,503,643)	(4,643)
Proceeds from sale of capital assets	-	-	16,837	16,837
Proceeds from capital lease	4,000,000	-	-	-
Total other financing sources (uses)	<u>(1,699,000)</u>	<u>(2,198,500)</u>	<u>(2,143,018)</u>	<u>55,482</u>
Net change in fund balances	<u>(806,600)</u>	<u>(961,600)</u>	<u>248,555</u>	<u>1,210,155</u>
Fund balances-beginning	2,113,900	2,440,600	2,403,748	(36,852)
Fund balances-ending	<u>\$ 1,307,300</u>	<u>\$ 1,479,000</u>	<u>\$ 2,652,303</u>	<u>\$ 1,173,303</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, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Licenses and permits	50,000	50,000	165,817	115,817
Intergovernmental revenues	455,000	455,000	447,998	(7,002)
Charges for services	-	-	7,193	7,193
Interest earnings	-	-	679	679
Miscellaneous	-	-	1,000	1,000
Total revenues	<u>505,000</u>	<u>505,000</u>	<u>622,687</u>	<u>117,687</u>
<b>EXPENDITURES</b>				
Transportation	1,602,300	1,710,100	1,597,681	112,419
Total expenditures	<u>1,602,300</u>	<u>1,710,100</u>	<u>1,597,681</u>	<u>112,419</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,097,300)</u>	<u>(1,205,100)</u>	<u>(974,994)</u>	<u>230,106</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,086,300	1,086,300	1,086,300	-
Total other financing sources (uses)	<u>1,086,300</u>	<u>1,086,300</u>	<u>1,086,300</u>	<u>-</u>
Net change in fund balances	<u>(11,000)</u>	<u>(118,800)</u>	<u>111,306</u>	<u>230,106</u>
Fund balances-beginning	116,800	399,300	417,767	18,467
Changes in reserves - inventories	-	-	(1,253)	(1,253)
Fund balances-ending	<u>\$ 105,800</u>	<u>\$ 280,500</u>	<u>\$ 527,820</u>	<u>\$ 247,320</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, 2006

	Business-type Activities-Enterprise Funds					Governmental
	Water/ Sewer	Sanitation	Ambulance	Airport	Totals	Activities Internal Service Funds
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 651,820	\$ 2,366,082	\$ 57,519	\$ 63,932	\$ 3,139,353	\$ 2,167,397
Escrow accounts	-	-	-	-	-	141,680
Receivables (net of allowance for uncollectibles)	837,894	229,637	424,962	30,071	1,522,564	-
Interfund loans receivable	-	1,446,866	-	-	1,446,866	-
Intergovernmental receivable	-	-	-	-	-	8,499
Inventories and prepaid expenses	380,066	24,823	3,222	-	408,112	55,073
Total current assets	1,869,780	4,067,409	485,703	94,003	6,516,896	2,372,648
Noncurrent assets:						
Restricted assets:						
Revenue bond reserves/debt service:						
Cash and cash equivalents	957,094	-	-	-	957,094	-
Interest receivable	1,269	-	-	-	1,269	-
Due from other governments	1,364	-	-	-	1,364	-
Construction in progress:						
Cash and cash equivalents	3,451,006	-	-	-	3,451,006	-
Total restricted assets	4,410,732	-	-	-	4,410,732	-
Capital assets, net of accumulated depreciation:						
Land and land rights	759,047	-	-	460	759,507	608,951
Buildings	18,040,371	-	-	43,173	18,083,544	3,311,236
Infrastructure	30,882,056	-	-	107,601	30,989,657	-
Machinery and equipment	1,252,721	-	18,983	-	1,271,704	1,582,862
Construction in progress	7,631,197	-	-	-	7,631,197	81,601
Intangible assets	285,127	-	-	-	285,127	-
Total capital assets	58,850,519	-	18,983	151,234	59,020,736	5,584,650
Other noncurrent assets:						
Deferred charges	131,435	-	-	-	131,435	27,035
Total other noncurrent assets	131,435	-	-	-	131,435	27,035
Total assets	65,282,466	4,067,409	504,686	245,237	70,079,798	7,984,332

	Business-type Activities-Enterprise Funds					Governmental Activities
	Water/ Sewer	Sanitation	Ambulance	Airport	Totals	Internal Service Funds
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	188,546	129,374	1,951	400	320,272	49,030
Salaries payable	288,296	2,118	145,910	-	416,324	82,930
Interfund loans payable	500,000	-	-	-	500,000	900,000
Revenues collected in advance	-	-	615	-	615	-
Interest payable	-	-	-	-	-	43,975
Capital leases payable	4,705	-	7,018	-	11,724	235,740
G. O. bonds payable	28,333	-	-	-	28,333	224,441
Accrued interest	169,712	-	-	-	169,712	-
Intergovernmental loan payable	827,595	-	-	-	827,595	-
Revenue bonds payable	15,000	-	-	-	15,000	-
Other short-term liabilities	3,367	-	-	-	3,367	-
Bond premium (discount)	409,038	-	-	-	409,038	-
Total current liabilities	<u>2,414,593</u>	<u>131,492</u>	<u>155,495</u>	<u>400</u>	<u>2,701,981</u>	<u>1,536,116</u>
Noncurrent liabilities:						
Revenue bonds payable	7,000,000	-	-	-	7,000,000	-
G.O. bonds payable	988,334	-	-	-	988,334	2,952,355
Intergovernmental loans payable	9,594,965	-	-	-	9,594,965	-
Deferred revenue	-	-	-	-	-	11,082
Lease payable	2,713	-	1,107	-	3,819	469,327
Total noncurrent liabilities	<u>17,586,011</u>	<u>-</u>	<u>1,107</u>	<u>-</u>	<u>17,587,118</u>	<u>3,432,764</u>
Total liabilities	<u>20,000,604</u>	<u>131,492</u>	<u>156,601</u>	<u>400</u>	<u>20,289,098</u>	<u>4,968,880</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	40,479,081	-	12,101	151,234	40,642,416	1,719,348
Restricted for debt service	916,401	-	-	-	916,401	-
Unrestricted	3,866,380	3,935,917	335,984	93,603	8,231,883	1,298,105
Total net assets	<u>\$ 45,261,862</u>	<u>\$ 3,935,917</u>	<u>\$ 348,084</u>	<u>\$ 244,836</u>	<u>49,790,700</u>	<u>\$ 3,015,453</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					(1,282,708)	
Net assets of business-type activities					<u>\$ 48,507,994</u>	

**CITY OF MOSES LAKE**

**Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For Year Ended December 31, 2006**

	Business-type Activities-Enterprise Funds					Governmental Activities
	Water/ Sewer	Sanitation	Ambulance	Airport	Totals	Internal Service Funds
<b>OPERATING REVENUES</b>						
Charges for services	\$ 7,041,704	\$ 1,702,014	\$ 1,458,690	\$ -	\$ 10,202,407	\$ 3,004,676
Operating grants	-	-	-	-	-	38,160
Miscellaneous revenues	113,770	45	1,350	56,389	171,555	-
Total operating revenues	<u>7,155,475</u>	<u>1,702,059</u>	<u>1,460,040</u>	<u>56,389</u>	<u>10,373,962</u>	<u>3,042,836</u>
<b>OPERATING EXPENSES</b>						
Salaries and benefits	1,516,156	57,360	1,090,632	-	2,664,148	459,033
Supplies and contractual services	5,759,097	1,671,322	404,788	1,984	7,837,190	753,159
Utilities	326,491	-	-	2,210	328,701	199,952
Repairs and maintenance	177,845	-	1,263	13,138	192,247	399,464
Insurance claims and expenses	-	-	-	-	-	443,257
Depreciation and amortization	1,471,354	-	6,236	12,045	1,489,635	440,793
Total operating expenses	<u>9,250,942</u>	<u>1,728,682</u>	<u>1,502,920</u>	<u>29,377</u>	<u>12,511,921</u>	<u>2,695,658</u>
Operating income (loss)	<u>(2,095,468)</u>	<u>(26,623)</u>	<u>(42,880)</u>	<u>27,013</u>	<u>(2,137,959)</u>	<u>347,178</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Interest income	368,985	-	-	-	368,985	-
Insurance recoveries	2,453,149	-	-	-	2,453,149	6,510
Intergovernmental grants	-	-	-	-	-	5,574
Intergovernmental payments	(50,000)	-	-	-	(50,000)	-
Interest expense	(270,912)	-	(426)	-	(271,338)	(167,731)
Miscellaneous revenue	154,830	9,687	-	-	164,517	-
Miscellaneous expenses	-	-	-	-	-	1,231
Gain (loss) on disposal of assets	(8,442)	-	-	-	(8,442)	37,297
Capital grants	36,364	-	-	4,754	41,118	-
Total nonoperating revenues (expenses)	<u>2,683,975</u>	<u>9,687</u>	<u>(426)</u>	<u>4,754</u>	<u>2,697,990</u>	<u>(117,120)</u>
Income (loss) before contributions and transfers	588,507	(16,937)	(43,306)	31,767	560,031	230,058
Capital contributions	2,691,646	-	-	-	2,691,646	-
Transfers in	856,668	-	250,000	-	1,106,668	-
Transfers out	-	-	-	-	-	(1,200,000)
Change in net assets	<u>4,136,821</u>	<u>(16,937)</u>	<u>206,694</u>	<u>31,767</u>	<u>4,358,345</u>	<u>(969,942)</u>
Total net assets - beginning	41,125,041	3,952,853	141,391	213,070		3,985,395
Total net assets - ending	<u>\$ 45,261,862</u>	<u>\$ 3,935,917</u>	<u>\$ 348,084</u>	<u>\$ 244,836</u>		<u>\$ 3,015,453</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					(1,106,262)	
Change in net assets of business-type activities					<u>\$ 3,252,083</u>	

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

## CITY OF MOSES LAKE

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## Statement of Cash Flows

## Proprietary Funds

For the Year Ended December 31, 2006

With Comparative Totals for the Year Ended December 31, 2005

	Business-type Activities-Enterprise Funds					Governmental Activities Internal Service Funds
	Water/ Sewer	Sanitation	Ambulance	Airport	Totals	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$ 8,963,362	\$ 1,682,028	\$ 1,259,011	\$ 28,750	\$ 9,933,150	\$ 3,004,676
Cash payments to suppliers	(5,892,948)	(1,655,108)	(407,598)	(25,409)	(7,981,064)	(1,927,391)
Cash payments to employees	(1,492,982)	(66,080)	(1,061,011)	-	(2,620,073)	(459,637)
Miscellaneous revenues	111,668	-	-	-	111,668	35,235
Miscellaneous expenses	(276,280)	-	-	-	(276,280)	-
Net cash provided by (used for) operating activities	(587,182)	(39,160)	(209,598)	3,340	(832,599)	652,883
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Miscellaneous nonoperating revenue	154,830	9,687	-	-	164,517	1,231
Interfund loans payments received (paid)	(500,000)	(918,675)	-	-	(1,418,675)	-
Transfers from other funds	13,459,896	-	250,000	-	13,709,896	-
Transfers to other funds	(12,562,982)	-	-	-	(12,562,982)	(1,200,000)
Purchase of inventory	-	(18,823)	-	-	(18,823)	-
Other intergovernmental payments	(51,364)	-	-	-	(51,364)	-
Grants	-	-	-	-	-	234,835
Insurance recoveries	2,453,149	-	-	-	2,453,149	6,510
Net cash used for noncapital financing activities	2,953,529	(928,812)	250,000	0	2,274,718	(957,425)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Principal payments intergovernmental loans	(324,263)	-	-	-	(324,263)	-
Interfund loans receipts (repayments)	1,000,000	-	-	-	1,000,000	343,500
Payments on leases	(13,869)	-	(13,570)	-	(27,438)	(93,004)
Proceeds of capital grants	36,364	-	113	4,754	41,231	-
ULID principal receipts	2,804	-	-	-	2,804	-
Contributed capital	700,181	-	-	-	700,181	-
G.O. bond principal payments	951,667	-	-	-	951,667	(220,266)
Revenue bond interest payments	(1,788)	-	-	-	(1,788)	-
Debt issue costs	7,054	-	-	-	7,054	-
Interest expense	(308,619)	-	(426)	-	(309,045)	(165,611)
Purchase of plant and equipment	(8,950,765)	-	-	-	(8,950,765)	(490,436)
Proceeds from sale of equipment	2,014	-	-	-	2,014	94,313
Net cash provided by (used) for capital and related financing activities	(6,899,219)	-	(13,882)	4,754	(6,908,347)	(531,505)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest income	345,316	-	-	-	345,316	11,082
Net cash provided by investing activities	345,316	-	-	-	345,316	11,082
Net increase (decrease) in cash and cash equivalents	(4,187,555)	(967,972)	26,520	8,094	(5,120,912)	(824,964)
Cash and cash equivalents, January 1	9,247,475	3,334,054	30,999	55,838	12,668,366	2,992,361
Cash and cash equivalents, December 31	<u>\$ 5,059,920</u>	<u>\$ 2,366,082</u>	<u>\$ 57,519</u>	<u>\$ 63,932</u>	<u>\$ 7,547,454</u>	<u>\$ 2,167,397</u>
<b>Noncash investing, capital, and financing activities:</b>						
Contributions of capital assets	\$ (700,181)				\$ (700,181)	\$ -
Transfer of capital assets	(130,598)				(130,598)	130,598

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



**CITY OF MOSES LAKE**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2006**

Page 2 of 2

	Business-type Activities-Enterprise Funds					Governmental Activities
	Water/ Sewer	Sanitation	Ambulance	Airport	Totals	Internal Service Funds
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>						
Operating income (loss)	\$ (2,095,468)	\$ (26,623)	\$ (42,880)	\$ 27,013	\$ (2,137,959)	\$ 347,178
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	1,471,354	-	6,236	12,045	1,489,635	440,793
Allowance for uncollectible accounts	-	-	28,917	-	28,917	-
Decrease (increase) in accounts receivable	(80,445)	(20,031)	(229,945)	(27,640)	(358,061)	-
Decrease (increase) in taxes receivable	-	-	-	-	-	(2,925)
Decrease (increase) in inventory	27,804	-	(130)	-	27,674	-
Decrease (increase) in prepaid expenses	-	-	-	-	-	(871)
(Decrease) increase in accounts payable	(52,470)	16,214	(1,416)	(8,078)	(45,750)	(130,589)
(Decrease) increase in salaries payable	23,173	(8,719)	29,622	-	44,076	(603)
(Decrease) increase in deferred revenue	118,870	-	-	-	118,870	-
Total adjustments	1,508,286	(12,537)	(168,717)	(23,672)	1,305,380	305,705
Net cash provided (used) by operating activities	\$ (587,182)	\$ (39,160)	\$ (209,598)	\$ 3,340	\$ (832,599)	\$ 652,883

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, 2006**

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	<u>Firemen's Pension</u>	<u>Agency Funds</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 213,488	\$ 583,723	\$ 797,211
Escrow accounts	-	447,574	447,574
Total assets	<u>213,488</u>	<u>1,031,297</u>	<u>1,244,785</u>
 <b>LIABILITIES</b>			
Accounts payable	9,368	-	9,368
Custodial accounts payable	-	1,031,297	1,031,297
Total liabilities	<u>9,368</u>	<u>1,031,297</u>	<u>1,040,665</u>
 <b>NET ASSETS</b>			
Held in trust for pension benefits and other purposes	<u>\$ 204,120</u>	<u>\$ -</u>	<u>\$ 204,120</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, 2006

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	<u>Firemen's Pension Fund</u>
<b>ADDITIONS</b>	
Intergovernmental revenues	\$ 15,564
Interest earnings	9,673
Transfers in	125,000
Total additions	<u>150,237</u>
<b>DEDUCTIONS</b>	
Benefits	16,896
Medical insurance and direct medical payments	115,242
Total deductions	<u>132,137</u>
Change in net assets	18,100
Net assets - beginning	186,020
Net assets - ending	<u>\$ 204,120</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, 2006**

**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 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. For the most part, the effect of Interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is not to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted

to meeting the operational or capital requirements or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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 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-supported through user charges.

The **Ambulance Fund** accounts for the activities of emergency services and transportation of patients.

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

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

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

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

**Capital Project Funds** account for all resources to be used for the construction or acquisition of designated capital assets by the city except for those financed by proprietary or fiduciary funds. Their major sources of revenues are from proceeds from general obligation bonds, grants from other agencies and contributions from other funds.

**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.

**Fiduciary Funds** account for the activities of the fireman's pension fund, which accumulates resources for excess pension benefit payments to qualified firefighters.

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 Interfund activity has been eliminated from the government-wide financial statements.

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the 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, then restricted resources as needed.

#### D. Budgetary Information

##### 1. Scope of Budget

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

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

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

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

##### 2. 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 or that effect the number of authorized employee positions, salary ranges, hours, or other conditions of employment 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

1. Cash and Cash Equivalents

It is the city's policy to invest all temporary cash surpluses. At December 31, 2006, the treasurer was holding \$17,750,303 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.

2. Investments - See Investment Note No. 4.

3. 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, 2006, 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.

4. 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.

5. Inventories

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

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

6. Restricted Assets and Liabilities

These accounts contain resources for construction and debt service, including current and delinquent special assessments receivable, in enterprise funds. The current portion of related 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	\$	957,094
Cash Investments - Construction		3,451,006
Interest receivable		1,269
Due from other governments		1,346
Total Restricted Assets	\$	<u>4,410,732</u>

7. 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 \$603,461. Of this amount, \$170,673 was included as part of the cost of capital assets under construction in connection with the Operations Complex construction.

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 lives:

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 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 is no depreciation expense 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.

#### 8. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay is accrued 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:

Years of Service	Percent Payable
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.

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

10. Long-Term Debt - See Notes No. 9 and 10, Long Term Debt and Leases.

11. Deferred Revenues

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

12. 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

A. 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. One element of that reconciliation explains that "long-term liabilities, including bonds, loans, and compensated absences, are not due and payable in the current period and, therefore are not reported in the funds." The details of this \$8,865,871 balance are as follows:

Bonds payable	\$	7,221,812
Issuance discount		(45,592)
Capital leases payable		23,575
Accrued interest payable		147,444
Special assessments		255,980
Compensated absences		<u>1,262,654</u>
Net adjustment to reduce fund balance-total governmental funds to net assets governmental funds	\$	<u><u>8,865,871</u></u>

Another element of that reconciliation explains that "Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets." The details of this \$4,298,158 difference are as follows:

Net assets of the internal service funds	\$ 3,015,453
Plus: Internal payable representing charges under the cost to business-type activities—prior years	176,444
Plus: Internal payable representing charges under the cost to business-type activities—current year	1,106,262
	<hr/>
Net adjustment to increase fund balance-total governmental funds to arrive at net assets—governmental activities	<u>\$ 4,298,158</u>

B. 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. One element of the reconciliation explains that "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." The details of this \$3,961,564 difference are as follows:

Capital outlay	\$ 4,347,657
Depreciation	(386,093)
	<hr/>
Net adjustment to increase net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 3,961,564</u>

Another element of that reconciliation states that "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, and donations) is to increase net assets. The details of the \$2,353,487 difference are as follows:

Donations of capital assets increase net assets in the statement of activities, but do not appear in governmental funds because they are not a current financial resource.	\$ 2,434,594
In the statement of activities, only the loss on the sale and disposal of capital assets is reported. In governmental funds, only the proceeds from the sale of assets are reported. The difference in the loss from disposal and gain from sale reported in net assets from the proceeds reported in governmental funds is	(44,983)
Less items in construction in progress that were not capital items.	(36,123)
	<hr/>
Net adjustment to increase net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities.	<u>\$ 2,353,487</u>

Another element of that reconciliation states that "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 affect 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." The details of the \$ 4,557,283 difference are as follows:

Debt Issued or Incurred:	
Bond payable	\$ 5,083,333
Less debt issue cost	(34,917)
Less discount on bonds paid out	(46,761)
Principal repayments	<u>(444,372)</u>
Net adjustment to decrease net changes in fund balances- total governmental funds to arrive at changes in net assets governmental activities.	<u>\$ 4,557,283</u>

Another element of that reconciliation states that "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." The details of the \$ 359,406 difference are as follows:

Compensated absences	\$ 267,107
Accrued interest	90,257
Amortization of deferred bond issue costs	<u>2,042</u>
Net adjustment to decrease net changes in fund balances- total governmental funds to arrive at changes in net assets of governmental activities.	<u>\$ 359,406</u>

Another element of that reconciliation states that "Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities." The details of this \$136,319 difference are as follows:

Change in net assets of the internal service funds	\$ (969,942)
Plus: Loss from charges to business-type activities	<u>1,106,262</u>
Net adjustment to increase net changes in fund balances-total Governmental funds to arrive at changes in net assets of Governmental activities	<u>\$ 136,320</u>

### NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

### NOTE 4 - DEPOSITS AND INVESTMENTS

#### A. 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).

#### B. 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, bankers' acceptances, or certificates of deposit with Washington State banks and savings and loan institutions. 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.)

At December 31, 2006, the bank balance was \$ 480,185. 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 Average Maturity (days)
Certificates of Deposit - Sterling Savings Bank	\$ 5,500,000	AAA	36
Grant County Invest Pool	662,715	not rated	1
WA State Invest Pool	10,699,685	not rated	18
WA State invest Pool (Bonds)	887,903	not rated	1
Total Fair Value	<u>\$ 17,750,303</u>		
Portfolio Weighted Average Maturity			14

*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 it's investment policy, the City manages it's exposure to decreases in fair values by limiting the weighted average maturity of its investment portfolio to less than 9 months.

*Credit Risk:* 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.

*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:* For an investment is the risk that, in the event of the failure of the counter party, the city will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

#### 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 percent of market value
October 31	Second installment is due

In governmental funds, property taxes are recorded as a receivable when levied, offset by a deferred revenue. During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections expected to occur within 60 days. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The city may levy up to \$3.1 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 2006 was \$3.06813 per \$1,000 on an assessed valuation of \$905,052,449 for a total regular levy of \$2,776,819.

## NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

### A. Capital Assets

A summary of capital assets for the year ended December 31, 2006 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	\$ 14,880,070	\$ 431,379	\$ 22,118	\$ 15,289,330
Infrastructure*	23,535,220	2,313,896	-	25,849,116
CIP	<u>119,400</u>	<u>4,396,258</u>	<u>470,619</u>	<u>4,045,039</u>
Total capital assets not Depreciated	<u>38,534,690</u>	<u>7,141,533</u>	<u>492,737</u>	<u>45,183,486</u>
Capital Assets Depreciated:				
Buildings	18,078,586	135,154	94,685	18,119,056
Intang-Software	147,051	-	-	147,051
Machinery and equipment	7,652,928	394,108	235,495	7,811,542
Infrastructure	<u>1,448,608</u>	<u>-</u>	<u>-</u>	<u>1,448,608</u>
Total	<u>27,327,174</u>	<u>529,262</u>	<u>330,180</u>	<u>27,526,256</u>
Less Accumulated Depreciation:				
Buildings	5,610,483	424,683	74,860	5,960,306
Intang-software	147,051	-	-	147,051
Machinery and Equipment	5,589,070	365,988	230,973	5,724,085
Infrastructure	<u>579,443</u>	<u>36,215</u>	<u>-</u>	<u>615,658</u>
Total Accumulated Depreciation	<u>11,926,047</u>	<u>826,886</u>	<u>305,833</u>	<u>12,447,100</u>
Total Capital Assets Being Depreciated, Net	<u>15,401,127</u>	<u>(297,624)</u>	<u>24,347</u>	<u>15,079,156</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 53,935,817</u>	<u>\$ 6,843,909</u>	<u>\$ 517,084</u>	<u>\$ 60,262,642</u>

\*The city first reported infrastructure under the new requirements of the Governmental Accounting Standards Board Statement Number 34 in Fiscal Year 2003. 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>				
Capital Assets Not Depreciated:				
Land	\$ 759,507	\$ -	\$ -	\$ 759,507
CIP	14,020,506	10,997,328	17,386,637	7,631,197
Intangible Assets	285,127	-	-	285,127
Total capital assets not Depreciated	<u>15,065,139</u>	<u>10,997,328</u>	<u>17,386,637</u>	<u>8,675,830</u>
Capital Assets Depreciated:				
Buildings	11,858,869	11,692,928	-	23,551,797
Machinery and equipment	1,754,536	69,807	37,619	1,786,724
Infrastructure	41,234,581	5,568,805	-	46,803,385
Total	<u>54,847,986</u>	<u>17,331,539</u>	<u>37,619</u>	<u>72,141,907</u>
Less Accumulated Depreciation:				
Buildings	4,953,264	514,989	-	5,468,253
Machinery and Equipment	482,229	59,955	27,163	515,021
Infrastructure	14,899,037	914,691	-	15,813,728
Total Accumulated Depreciation	<u>20,334,530</u>	<u>1,489,635</u>	<u>27,163</u>	<u>21,797,002</u>
Total Capital Assets being Depreciated, Net	<u>34,513,456</u>	<u>15,841,904</u>	<u>10,456</u>	<u>50,344,905</u>
<b>Business-type Activities Capital Assets, Net</b>	<u>\$ 49,578,596</u>	<u>\$ 26,839,232</u>	<u>\$ 17,397,092</u>	<u>\$ 59,020,735</u>

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

Governmental Activities	Depreciation
General Government	\$ 38,396
Public Safety	17,518
Transportation	38,950
Public Works	0
Culture and Recreation	291,229
Capital Assets Held by the Government's Internal Service Funds are Charged to the Various Functions Based on Their Usage of the Assets	<u>440,793</u>
Total Depreciation - Governmental Activities	<u>\$ 826,886</u>

<u>Business-Type Activities</u>	<u>Depreciation</u>
Water/Sewer	\$ 1,471,354
Ambulance	12,045
Airport	6,236
Total Depreciation - Business-Type Activities	\$ 1,489,635

B. 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; and
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.

C. Construction Commitments

The city has active construction projects as of December 31, 2006. The projects include a lift station, operations complex, ice rink and downtown revitalization. At year-end the governments's commitments with contractors are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Broadway/Farmer Drive lift station	\$ 128,440	\$ 234,192
Operations & Maintenance Complex	7,204,545	207,106
Downtown Reconstruction Project	1,842,944	78,583
Ice Skating Rink	1,286,387	54,762
Total	\$ 10,462,316	\$ 574,643

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*.

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

1. Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

**Plan 1** retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The annual benefit is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching age 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

**Plan 2** retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at age 65 with five years of service, or at age 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted, (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

**Plan 3** has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final

compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. Retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,181 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

Retirees and Beneficiaries Receiving Benefits	68,609
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	22,567
Active Plan Members Vested	104,574
Active Plan Members Non-vested	51,004
Total	<u>246,754</u>

## 2. Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. 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, 2006, were:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	3.69%**	3.69%	3.69%***
Employee	6.00%***	3.5%	*****

\* The employer rates include the employer administrative expense fee currently set at 0.18%

\*\* The employer rate for state elected officials is 5.44%.

\*\*\* The employee rate for state elected officials is 7.5%.

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

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

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

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2006	\$13,523	\$118,170	\$25,226
2005	\$ 8,198	\$ 64,872	\$14,105
2004	\$ 6,663	\$ 49,303	\$ 9,410

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

**1. Plan Description**

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 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. 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. In addition, effective July 24, 2005, current members of PERS who are emergency medical technicians can elect to become members of LEOFF Plan2. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan. 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 the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible 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:

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

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at age 50 with 20 years of service, or at age 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to age 53 are reduced 3 percent for each year that the benefit commences prior to age 53 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 (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

There are 376 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

Retirees and Beneficiaries Receiving Benefits	8,723
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	577
Active Plan Members Vested	12,348
Active Plan Members Nonvested	3,543
Total	<u>25,191</u>

## 2. Funding Policy

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board in with 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature has the ability, by means of a special funding arrangement, to

appropriate money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 and 2 in accordance with the requirements of the Pension Funding Council. 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, 2006, were:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	4.90%**
Employee	0.00%	7.85%
State	N/A	3.13%

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* The employer rate for ports and universities is 8.03%.

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
2006	\$170	\$144,481
2005	\$340	\$106,479
2004	\$589	\$ 86,456

#### C. 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.

#### D. Local Governments Pension Trust Funds

The City of Moses Lake is also the administrator of a single employer defined benefit pension retirement plan called Fireman's Pension Fund. The system is shown as a trust fund in the financial reports of the city and is a single -employer defined benefit pension plan.

As of December 31, 2006 there were a total of eight individuals covered by the system. All individuals were retired as of the end of the year, and five were drawing benefits.

The most recent actuarial study was done by Milliman & Robertson, Inc. to determine the funding requirements as of December 31, 1980. As of that date, the value of assets valued

at market was \$279,945 and the actuarial present value of future benefits was \$716,000 leaving an unfunded pension benefit obligation of \$436,055.

Based upon this study, the city made a contribution of \$15,564 in 2006 which represented 100 percent of its current year obligation.

The following ten year historical trend information shows the system's progress in accumulating sufficient assets to pay benefits when due.

Fiscal Year	Net Assets Available For Benefits	Pension Benefit Obligation	Percentage Funded	Unfunded Pension Benefit Obligation	Annual Covered Payroll	Unfunded Pension Benefit Obligations as a % of Covered Payroll
2006	\$ 204,120	\$ 946,255	21.57%	\$ 742,135	-	N/A
2005	186,020	908,655	20.47%	722,635	-	N/A
2004	283,732	873,155	32.50%	589,423	-	N/A
2003	395,850	839,655	47.14%	443,805	-	N/A
2002	498,781	808,055	61.73%	309,274	-	N/A
2001	540,247	778,255	69.42%	238,008	-	N/A
2000	549,654	750,155	73.27%	200,501	-	N/A
1999	542,276	723,655	74.94%	181,379	-	N/A
1998	544,221	698,655	77.90%	154,434	-	N/A
1997	545,900	675,055	80.87%	129,155	47,913	269.56%

#### E. 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 (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the



purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 121 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$3 million per occurrence self insured layer, and \$12 million per occurrence in the re-insured excess layer with no annual aggregate except \$10 million per member for public officials errors and omissions. The excess layer is insured by the purchase of reinsurance and insurance. Total limits are \$15 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

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

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

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, 2006 were as follows:

Unemployment Compensation	\$428,251
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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 refunding bonds were entered into in the current year to refund intergovernmental debt.

##### A. 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
1998 LTGO Bond	Governmental Activities - Refunding	1/6/1998	8/1/2009	\$ 1,539,725	4.0 - 4.8%	\$ 872,210
1998 LTGO Bond	Governmental - Internal Service	1/6/1998	8/1/2009	155,275	4.0 - 4.8%	67,790
2002 LTGO Bond	Governmental Activities - Refunding	9/10/200	8/1/2012	2,315,705	1.5 - 3.95%	1,466,269
2002 LTGO Bond	Governmental - Internal Service	9/10/200	8/1/2012	1,119,295	1.5 - 3.95%	708,731
2003 LTGO Bond	Governmental - Internal Service	12/30/20	8/1/2023	2,725,000	1.2 - 4.6%	2,425,000
2006 LTGO Bond	Governmental Activities	6/5/2006	8/1/2026	5,083,333	3.65-4.25%	5,083,333
2008 LTGO Bond	Operations Complex	6/5/2008	8/1/2028	1,016,667	3.65-4.25%	1,016,667
Total				\$ 13,955,000		\$ 11,440,000

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

Year	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 482,226	\$ 322,177	\$ 252,774	\$ 171,734
2008	526,467	272,904	268,532	158,153
2009	549,455	253,433	275,545	149,837
2010	572,818	232,478	287,182	140,697
2011	547,015	209,746	292,985	130,549
2012 - 2016	1,485,498	795,251	1,034,502	510,559
2017 - 2021	1,375,000	533,265	1,090,000	307,983
2022 - 2026	1,683,333	220,823	716,667	70,615
Total	\$ 7,221,812	\$ 2,840,075	\$ 4,218,188	\$ 1,640,128

B. 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	\$ 7,015,000	2.50-5.00%	\$ 7,015,000
Total			\$ 7,015,000		\$ 7,015,000

Revenue bond debt service requirements to maturity are as follows:

Year	Principal	Interest	Total
2007	\$ 15,000	\$ 326,825	\$ 341,825
2008	20,000	326,450	346,450
2009	30,000	325,900	355,900
2010	75,000	325,000	400,000
2011	225,000	322,563	547,562
2012-2016	1,515,000	1,473,550	2,988,550
2017-2021	2,310,000	1,065,250	3,375,250
2022-2024	2,825,000	313,750	3,138,750
Total	\$ 7,015,000	\$ 4,479,288	\$ 11,494,288

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 rebatable arbitrage must be paid to the federal government. The City of Moses Lake carefully monitors its investments to restrict earnings to a yield less than the bond issue, and therefore limit any arbitrage liability. As of December 31, 2006 the City has no arbitrage rebate liability.

C. 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 Larson Potable	1.00%	\$ 303,405
PWTF Sewer Rehabilitation	3.00%	95,380
PWTF Well #14	3.00%	124,332
PWTF Reservoir #8	2.00%	686,851
PWTF WWTP-Design	.50%	484,206
PWTF WWTP-Construction	.50%	8,470,588
WA St. Revolve (A)	5.00%	257,798
Total		\$ 10,422,560

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

Year	Principal	Interest	Total
2007	\$ 827,595	\$ 80,172	\$ 907,768
2008	831,097	70,240	901,338
2009	834,776	60,131	894,407
2010	798,039	49,836	847,875
2011	658,731	42,415	701,146
2012-2016	3,134,450	141,459	3,275,909
2017-2021	2,808,461	55,362	2,863,823
2022	529,412	2,647	532,059
Total	\$ 10,422,560	\$ 502,263	\$ 10,924,823

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, 2006, the city had \$548,496 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$957,094 in sinking funds and reserves as required by bond indentures.

#### NOTE 10 -LEASES

##### A. Operating Leases

The City of Moses Lake leases a portion of a building which the museum and art center occupies. This lease is for 10 years beginning January 1, 2001 and terminating December 31, 2010, with an option to extend for five additional years. Total cost for this lease was \$42,000, payable in equal monthly payments of \$3,500, for the year ended December 31, 2006. The future minimum lease payments for this lease are as follows:

Year	Amount
2007	42,000
2008	51,600
2009	51,600
2010	51,600
Total	\$ 196,800

##### B. 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 was 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	\$ 9,985	\$ -
Machinery & Equipment	1,650,328	61,740
Less Accumulated Depreciation	931,672	46,198
Total	<u>\$ 728,641</u>	<u>\$ 15,542</u>

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2006 were as follows:

Year	Governmental Activities	Business-Type Activities
2007	\$ 273,033	\$ 11,987
2008	195,013	2,665
2009	184,847	1,145
2010	106,102	95
2011	16,491	-
Total Minimum Lease Payments	775,485	15,892
Less: Interest	46,843	349
Present Value of Minimum Lease Payments	<u>\$ 728,641</u>	<u>\$ 15,543</u>

## NOTE 11 - CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2006, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
Bonds payable:					
General obligation bonds	\$ 5,885,000	\$ 5,083,333	\$ 545,000	\$ 10,423,333	\$ 706,667
Less deferred amount					
For issuance premiums (discounts)	<u>(26,724)</u>	<u>3,167</u>	<u>46,761</u>	<u>(70,318)</u>	<u>-</u>
Total bonds/leases payable	5,858,276	5,086,500	591,761	10,353,015	706,667
Capital leases	714,277	450,000	435,636	728,641	251,475
Compensated absences	<u>1,079,080</u>	<u>687,111</u>	<u>428,363</u>	<u>1,337,828</u>	<u>267,566</u>
Governmental activity long term liabilities	\$ <u>7,651,633</u>	\$ <u>6,223,611</u>	\$ <u>1,455,760</u>	\$ <u>12,419,484</u>	\$ <u>1,225,708</u>
<b>Business-type activities</b>					
Bonds payable:					
General Obligation Bonds	\$ -	\$ 1,016,667	\$ -	\$ 1,016,667	\$ 28,333
Revenue bonds	7,080,000	-	65,000	7,015,000	15,000
Less deferred amounts					
For issuance premiums (discounts)	<u>441,825</u>	<u>234</u>	<u>33,021</u>	<u>409,038</u>	<u>-</u>
Total bonds/leases payable	7,521,825	1,016,901	98,021	8,440,705	43,333
Capital leases	42,981	-	27,438	15,542	11,724
Government loans	10,746,823	500,000	824,263	10,422,560	827,595
Compensated absences	<u>375,616</u>	<u>180,784</u>	<u>86,154</u>	<u>366,352</u>	<u>73,270</u>
Business-Type activity long term liabilities	\$ <u>18,687,245</u>	\$ <u>1,697,685</u>	\$ <u>1,035,876</u>	\$ <u>19,245,160</u>	\$ <u>955,923</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 \$3,201,521 of general obligation bonds, \$24,726 bond discount, \$705,066 capital leases, and \$75,175 compensated absences of internal service funds are included in the above governmental activities amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund. Compensated absences and special assessments are reported as other current liabilities in the Statement of Net Assets.

## 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.

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, 2006 the following significant suits were:

Pending or Threatened Litigation

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. It is expected some defendants will counter claim alleging the city contributed to the contamination. There is insurance for this counter claim.
2. Bell v. Moses Lake, et al: Is a wrongful death claim arising from a motor vehicle accident. An intersection the city acquired as part of an annexation is alleged to have been negligently designed. 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

A. Interfund Balances

Loans between funds are classified as interfund loans receivable or payable on the statement of net assets. The loans were for side walk paver construction, operations complex construction, and Central Drive LID. Repayment in full by December 31, 2006 is not expected.

Interfund balances at December 31, 2006 were as follows:

		Borrowing Fund					
		Central Dr LID#58	Building Maintenance	Water Sewer	Equipment Rental	Sidewalk Paver Construction	Total
Lending Fund	Capital Projects	\$ -	\$300,000	\$ -	\$ -	\$ -	\$300,000
	Sanitation	122,866	-	500,000	600,000	224,000	1,446,866
	Total	\$122,866	\$300,000	\$500,000	\$600,000	\$224,000	\$1,746,866

B. 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:

		Transfer From				
		General Fund	Special Revenue	Water/ Sewer	Equipment Rental	Total
Transfers To	General Fund	\$ -	\$ -	\$343,332	\$ -	\$ 343,332
	Special Revenue	1,833,743	-	-	-	1,833,743
	Debt Service	295,356	264,600	-	-	559,956
	Capital Projects	-	37,628	-	-	37,628
	Water/Sewer	-	-	-	1,200,000	1,200,000
	Ambulance	250,000	-	-	-	250,000
	Firemen's Pension	125,000	-	-	-	125,000
Total		\$2,504,099	\$302,228	\$343,332	\$1,200,000	\$4,349,659



## 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.

	Water	Sewer	Total
<b>CONDENSED STATEMENT OF NET ASSETS</b>			
Assets:			
Current asset	\$ 1,174,870.98	\$ 694,909	\$ 1,869,780
Restricted assets	2,052,416	2,358,317	4,410,732
Capital assets	23,799,218	35,051,301	58,850,519
Other assets	65,718	65,718	131,435
<b>TOTAL ASSETS</b>	<b>27,092,222</b>	<b>38,170,244</b>	<b>65,262,466</b>
Liabilities:			
Current liabilities	264,968	691,874	989,881
Current Liabilities payable from restricted assets	320,016	728,698	1,424,713
Noncurrent liabilities	6,269,261	11,725,788	17,586,011
<b>TOTAL LIABILITIES</b>	<b>6,854,245</b>	<b>13,146,359</b>	<b>20,000,604</b>
Net Assets:			
Invested in capital assets, net of related debt	15,786,842	24,692,239	40,479,081
Restricted	-	-	916,401
Unrestricted	2,297,849	1,568,530	3,866,380
<b>TOTAL NET ASSETS</b>	<b>\$ 20,237,977</b>	<b>\$ 25,023,885</b>	<b>\$ 45,261,862</b>

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

Total operating Revenues	\$ 4,167,491	\$ 2,987,984	\$ 7,155,475
Depreciation, Amortization, Depletion	(603,626)	(867,728)	(1,471,354)
Total Operating Expense	(5,862,245)	(1,917,343)	(7,779,588)
Operating income	(2,298,380)	202,912	(2,095,468)
Nonoperating revenue (expenses):			
Interest income	212,249	156,737	368,985
Insurance Recoveries	2,453,149	-	2,453,149
Intergovernmental payments	60,674	80,520	141,193
Interest expense	(248,888)	(22,024)	(270,912)
Disposal of Assets	(8,442)	-	(8,442)
Capital Contributions	1,674,259	1,017,387	2,691,646
Transfers in (out)	-	856,668	856,668
Prior Period Adjustment	-	-	-
Change in net assets	1,844,621	2,292,200	4,136,821
Beginning net assets	18,393,356	22,731,685	41,125,041
Ending net assets	\$ 20,237,977	\$ 25,023,885	\$ 45,261,862

## CONDENSED STATEMENT OF CASH FLOWS

Net cash provided (used) by:			
Operating activities	\$ (355,024)	\$ (232,158)	\$ (587,181)
Noncapital financing activities	2,097,385	856,144	2,953,529
Capital & related financing activities	(4,143,520)	(2,755,699)	(6,899,219)
Investing activities	200,414	144,902	345,316
Net increase (decrease)	(2,200,744)	(1,986,811)	(4,187,555)
Beginning cash & cash equivalents	6,158,710	3,088,764	9,247,474
Ending cash & cash equivalents	\$ 3,957,966	\$ 1,101,953	\$ 5,059,919

#### 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 20 individuals that meet the eligibility requirements.

Law Enforcement Officers' And Fire Fighters' Retirement System (LEOFF) plan 1

##### A. 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 by GASB Statement 43 for plans with fewer than one hundred employees.

##### B. 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.

##### C. Funding Status and Funding Policy

The plan has 22 members, there are 2 active members and 20 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 these benefits.

For 2006, the city paid medical insurance premiums of \$134,165 for pre-age 65, and \$73,013 for post-age 65. Other medical payments paid by the city are for all eligible medical services not paid for by the insurance. Amounts paid from 2004 through 2006 by the city are as follows:

Year	Members		Other Medical Services	Total Insurance Premium	Other Services as Percent of Insurance Costs
	<65	>65			
2006	12	8	\$8,489	\$204,129	4.16%
2005	10	8	10,085	173,490	5.81%
2004	9	9	6,044	158,080	3.82%
Total			<u>\$24,618</u>	<u>\$535,699</u>	<u>4.60%</u>

The city's annual other postemployment 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 by GASB Statement 45 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:

Annual required contribution	240,660
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	240,660
Contributions made	212,618
Increase in net OPEB obligation	28,042
Net OPEB obligation-Beginning of year	-
Net OPEB obligation-End of year	28,042

The city's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2006 and the two preceding fiscal years were as follows:

Fiscal year Ended	Annual OPEB Costs	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2004	\$167,650	100%	-
12/31/2005	\$187,314	100%	-
12/31/2006	\$212,618	88%	\$28,042

**Funding Status and Funding Progress.** As of December, 2006, the actuarial accrued liability for benefits was \$4,541,150, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$ 108,469.

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.

Both active employees have reached the 50 year minimum retirement age. The historical age of retirement for regular retirees is 55 years of age. Employees who retired on disability were excluded from this calculation. Two eligible employees retired during 2005 or 2006. Active employees are assumed to retire at age 60 because they have reached age 55 which is the average retirement age for the group.

Life expectancies are based on mortality tables at the National Center for Health Statistics website ([www.cdc.gov](http://www.cdc.gov)). The 2003 United States life tables for Males were used. 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.

All active employees have qualified for post employment healthcare benefits under the provisions of RCW. Therefore, the assigned probabilities are 100%.

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 1999 to 2015, published March 2004 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 5.2%.

Inflation rate- The expected long-term inflation assumption of 2.8 percent was based on projected changes in the Consumer Price Index for Urban Wage earners and Clerical Workers (CPI-W) in the 2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds for an intermediate growth scenario.

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 5.2 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an closed basis. The remaining amortization period at December 31, 2006 was twenty-eight years.

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

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

**Streets**

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.

Condition rating	2006		2005-2003		2002-2000	
	Feet	%	Feet	%	Feet	%
VERY POOR	24,932	4.20%	8,090	1.49%	4,710	0.90%
POOR	30,790	5.19%	20,465	3.78%	17,375	3.40%
FAIR	62,906	10.60%	79,300	14.64%	78,705	15.30%
GOOD	154,468	26.03%	133,996	24.73%	125,711	24.40%
VERY GOOD	320,411	53.99%	299,955	55.36%	288,702	56.00%
TOTAL	593,507	100.00%	541,806	100.00%	515,203	100.00%

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.

PCR score	2006		2005-2003		2002-2000	
	Feet	%	Feet	%	Feet	%
PCR 0 to 39	55,722	9.39%	28,555	5.27%	22,085	4.30%
PCR 40 to 100	537,785	90.61%	513,251	94.73%	493,118	95.70%
Total	593,507	100.0%	541,806	100.0%	515,203	100.0%

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.

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 2003 to 2006. The budgeted amount is equivalent to the anticipated amount needed to maintain streets up to the recommended condition level.

	Amounts in Thousands			
	2006	2005	2004	2003
Budgeted	975	1,376	438	291
Expended	291	1,096	194	400

Underspending 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. No amounts were available prior to 2003 and GASB #34 as the City budgeted and capitalized the cost of reconstruction of streets.

## 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.

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.

The 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.