

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

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

Audit Period  
**January 1, 2011 through December 31, 2011**

**Report No. 1008134**

Issue Date  
**August 13, 2012**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

August 13, 2012

City Council  
City of Moses Lake  
Moses Lake, Washington

***Report on Financial Statements***

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

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

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

# Table of Contents

**City of Moses Lake  
Grant County  
January 1, 2011 through December 31, 2011**

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with <i>Government Auditing Standards</i> .....	1
Independent Auditor's Report on Financial Statements.....	3
Financial Section.....	5

# **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, 2011 through December 31, 2011

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, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 19, 2012. During the year ended December 31, 2011, the City implemented Governmental Accounting Standards Board *Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions*.

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.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

## **COMPLIANCE AND OTHER MATTERS**

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

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

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

A handwritten signature in black ink, appearing to read "Brian Sonntag", written in a cursive style.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

June 19, 2012

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

## **City of Moses Lake Grant County January 1, 2011 through December 31, 2011**

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, 2011, 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, 2011, 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.

As described in Note 1, during the year ended December 31, 2011, the City implemented Governmental Accounting Standards Board *Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions*.

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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 18, pension trust fund on page 70 and infrastructure modified approach on pages 71 through 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a stylized, flowing script.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

June 19, 2012

# **Financial Section**

## **City of Moses Lake Grant County January 1, 2011 through December 31, 2011**

### ***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2011

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

Statement of Net Assets – 2011  
Statement of Activities – 2011  
Balance Sheet – Governmental Funds – 2011  
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide  
Statement of Net Assets – 2011  
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental  
Funds – 2011  
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and  
Changes in Fund Balance to the Statement of Activities – 2011  
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and  
Actual – General Fund – 2011  
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and  
Actual – Street Fund – 2011  
Statement of Net Assets – Proprietary Funds – 2011  
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds –  
2011  
Statement of Cash Flows – Proprietary Funds – 2011  
Statement of Net Assets – Fiduciary Funds – 2011  
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds – 2011  
Notes to Financial Statements – 2011

### ***REQUIRED SUPPLEMENTARY INFORMATION***

Pension Trust Fund – 2011  
Infrastructure Modified Approach Information – 2011



## 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, 2011. The information presented here should be read in conjunction with additional information that we have furnished in our letter of transmittal, the financial statements and notes to the financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars and are rounded to the nearest thousand.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Moses Lake exceeded its liabilities at the close of the most recent fiscal year by **\$138,964** (net assets). Of this amount, **\$19,333** (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 **\$11,414**.
- As of the close of the current fiscal year, the City of Moses Lake's governmental funds reported combined ending fund balances of **\$3,848**, an **increase** of \$846 from the prior year. **\$700** is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, the general fund had a \$700 fund balance that had no limitations, or 3.8% of total general fund expenditures

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The **statement of activities** presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Moses Lake that are principally supported by taxes and intergovernmental revenues (governmental activities)

from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Moses Lake include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Moses Lake include a water and sewer utility, sanitation, storm water, ambulance and airport.

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

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

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

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

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

**Proprietary funds.** The City of Moses Lake maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Moses Lake uses enterprise funds to account for its water and sewer utility, sanitation, storm water, ambulance, and airport operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Moses Lake's various functions. The City of Moses Lake also uses internal systems to

account for its fleet of vehicles, self insurance, unemployment programs, building services, and computer services. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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

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

**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 **\$138,964** at December 31, 2011.

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$3,694	\$8,884	\$21,785	\$14,696	\$25,479	\$23,580
Capital assets	72,658	68,572	78,351	69,930	151,009	138,502
Total assets	<u>76,352</u>	<u>77,456</u>	<u>100,136</u>	<u>84,626</u>	<u>176,488</u>	<u>162,082</u>
Long-term liabilities	13,675	14,991	18,317	14,848	31,992	29,839
Other liabilities	2,904	3,015	2,628	1,679	5,531	4,694
Total liabilities	<u>16,579</u>	<u>18,006</u>	<u>20,945</u>	<u>16,527</u>	<u>37,524</u>	<u>34,533</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	59,286	53,837	54,936	54,877	114,222	108,714
Restricted	0	294	5,409	811	5,409	1,105
Unrestricted	487	5,319	18,846	12,412	19,333	17,731
Total net assets	<u>\$59,773</u>	<u>\$59,450</u>	<u>\$79,191</u>	<u>\$68,100</u>	<u>\$138,964</u>	<u>\$127,550</u>

The largest portion of the City of Moses Lake's net assets (82.2 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Moses Lake uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Moses Lake's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Moses Lake's net assets (3.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$19,333) may be used to meet the government's ongoing obligations to citizens and creditors.

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

### Statement of Changes in Net Assets

The changes in net assets table indicates the increases or decreases in net assets of the city resulting

from its operations. The City's total net assets, before prior period adjustments, increased by \$5,488 in 2011. The increase after transfers was split among governmental (\$2,349) and business-type activities (\$3,139).

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 2011.

**Governmental activities.** Governmental activities increased the City of Moses Lake's net assets

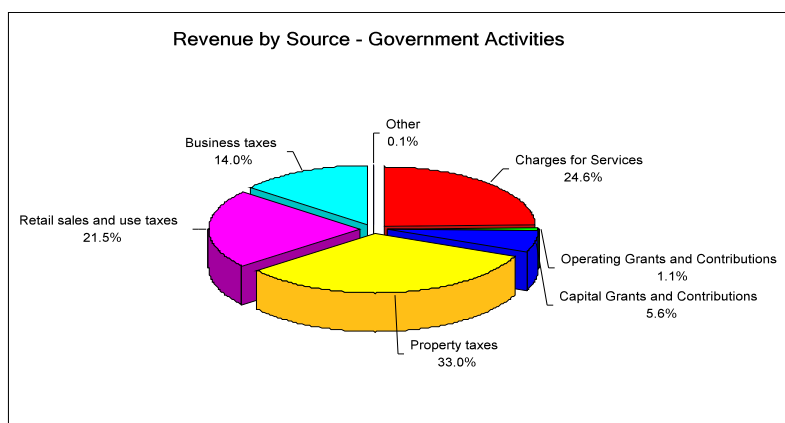
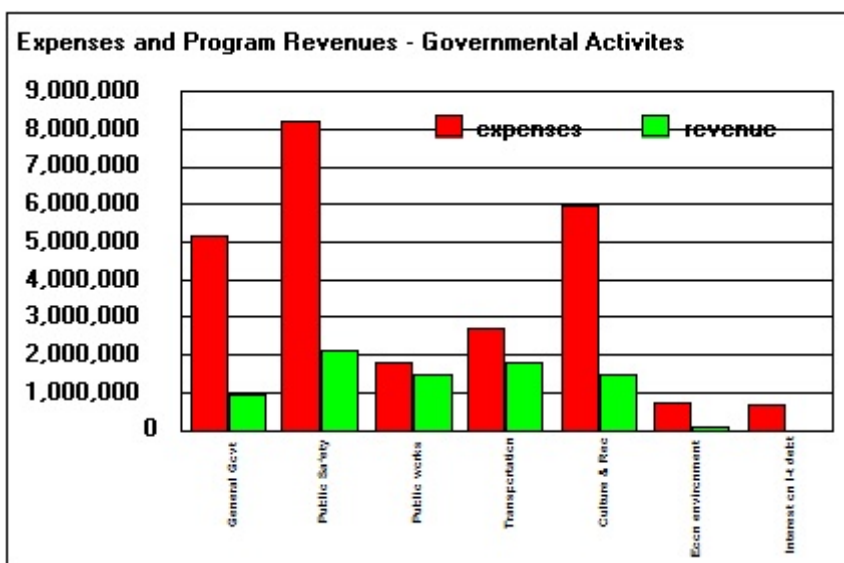
#### City of Moses Lake Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues:</b>						
Program revenue:						
Charges for services	\$6,318	\$6,405	\$15,473	\$13,970	\$21,791	\$20,375
Operating grants and contributions	293	209	-	-	293	209
Capital grants and contributions	1,452	1,149	5,101	790	6,553	1,939
General revenue						
Property taxes	8,491	7,052	-	-	8,491	7,052
Sales taxes	5,540	5,288	-	-	5,540	5,288
business taxes	3,591	3,489	-	-	3,591	3,489
Other taxes	-	-	-	-	-	-
Other	288	188	3743	24	4,031	212
<b>Total revenues</b>	<b>25,973</b>	<b>23,780</b>	<b>24,317</b>	<b>14,784</b>	<b>50,290</b>	<b>38,564</b>
<b>Expenses:</b>						
General government	5,178	1,490	-	-	5,178	1,490
Public safety	8,209	8,250	-	-	8,209	8,250
Public works	1,849	1,787	-	-	1,849	1,787
Transportation	2,758	2,657	-	-	2,758	2,657
Culture & recreation	5,971	5,092	-	-	5,971	5,092
Economic environment	761	744	-	-	761	744
Interest on long-term debt	671	591	-	-	671	591
Water/sewer utility	-	-	7,599	7,192	7,599	7,192
Sanitation	-	-	2,962	2,952	2,962	2,952
Ambulance	-	-	2,409	2,306	2,409	2,306
Airport	-	-	29	35	29	35
Storm Water	-	-	478	336	478	336
<b>Total expenses</b>	<b>25,397</b>	<b>20,611</b>	<b>13,477</b>	<b>12,821</b>	<b>38,874</b>	<b>33,432</b>
<b>Increase in net assets before transfers</b>	<b>576</b>	<b>3,169</b>	<b>10,840</b>	<b>1,963</b>	<b>11,416</b>	<b>5,132</b>
<b>Transfers</b>	<b>(253)</b>	<b>(73)</b>	<b>253</b>	<b>74</b>	<b>-</b>	<b>1</b>
<b>Increase in net assets</b>	<b>323</b>	<b>3,096</b>	<b>11,093</b>	<b>2,037</b>	<b>11,416</b>	<b>5,133</b>
<b>Net assets 01/01</b>	<b>59,450</b>	<b>55,999</b>	<b>68,100</b>	<b>66,063</b>	<b>127,550</b>	<b>122,062</b>
Prior period adjustment	-	419	-	-	-	419
change in reserves	-	-	-	-	-	-
<b>Net assets 12/31</b>	<b>\$59,773</b>	<b>59,514</b>	<b>\$79,193</b>	<b>\$68,100</b>	<b>\$138,966</b>	<b>\$127,614</b>

by \$323. As shown in the Statement of Activities \$8,063 of the total cost was paid for by either those directly benefitting from the programs or by governments and organizations that subsidized

certain programs through grants and contributions. Key elements of this increase are as follows:

- The increase of \$1,439 in property taxes was due largely to continued construction of a manufacturing facility that alone increased the city tax roll by \$735. The remaining increase was due to annexations and improvement/expansion of existing structures.
- Sales tax revenue increased (\$252) for the year was a result of economic and population growth in and around the City.
- The increase in capital grants and contributions (\$303) was attributable to an increase of funds received for the construction of the City's Civic Center (\$238)..
- The increase in general government expense (\$3,688) is attributable almost exclusively to transfer of assets (\$3,016) to the storm water fund. The \$879 increase in culture expenses is due to increases in rental rates and wages related to increased park and recreation programs. The increase in transportation expense (\$101) was from an increase in street projects.



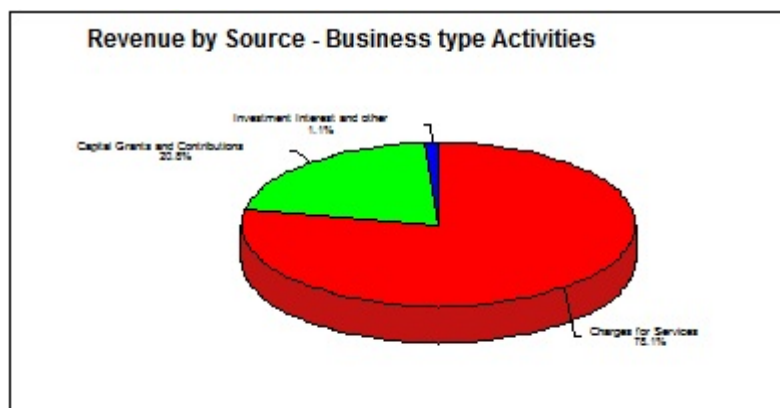
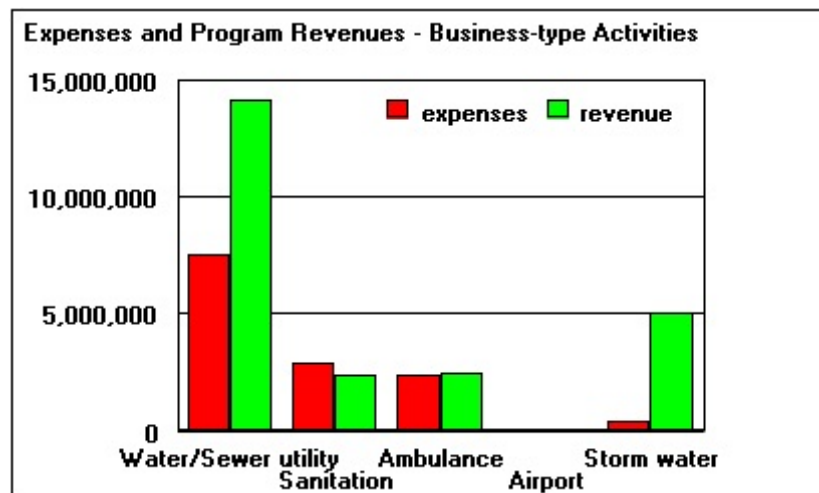
**Business-type activities.** Total net assets of Business-type activities increased by \$11,091 for the year. Other than Ambulance when revenues decrease for an activity so did the related expenses and when revenues increased so did expenses. Key elements of the fluctuations are as follows.

- Increase (\$1,503) in charges for services is attributed in large part to rate increases in the



utility rates of sanitation (\$348) and water and sewer funds (\$423). The annual rate increase in water/sewer rates for 2011 mandated by municipal code matches the increase in the Consumer Price Index. The remainder of the increase in utilities can be linked to development charges, usage increase, and added customers from a sizeable annexation occurring in June 2011. Ambulance charges increased (\$574) due to nearly a 10% jump in transports and emergency response calls. Storm Water increased (\$157) due to a full year of activity when in 2010 it existed for only nine months.

- Capital contributions increased \$4,311 most entirely from the transfer of assets (\$4,198) to the Storm Water fund from the General fund.
- The jump in expenses (\$657) is entirely from attorney fees (\$755) paid to finalize the lawsuit between the City and federal EPA.
- The amount received from insurance recoveries (\$3,716) was a settlement of a lawsuit with the federal EPA and the Department of Defense for the contamination of city wells.



**FINANCIAL  
THE CITY'S**

**ANALYSIS OF  
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, assigned and unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Moses Lake's governmental funds, which includes debt service funds, capital projects funds, and special revenue funds had an ending fund balances of \$3,847, an increase of \$846 in comparison with the prior year. Of the total fund balance only \$700 is considered unreserved, which is available for spending at the government's discretion. Unreserved fund balance includes assigned and unassigned amounts. The remainder of the fund balance is restricted, indicating that it is not available for new spending because it is nonspendable, indicating it is not in spendable form, or restricted for a specific purpose.

The General Fund is the chief operating fund of the City of Moses Lake. At the end of the current fiscal year, the fund balance of the general fund that was not restricted by external parties or constrained by the City was \$700, while the total fund balance was at \$1,928. The street fund is a special revenue fund, whose purpose is for the maintenance of streets and alleys, traffic control, and electrical street lighting had a committed fund balance of \$162 and a total balance of \$211.

The fund balance of the City of Moses Lake's General Fund increased by \$1,126 during the current fiscal year at the same time the Street Fund increased \$67. Key factors in the changes are as follows:

- The street fund revenue from vehicle excise tax from the state increased by \$74. And while operating expenditures declined \$83 capital construction was up \$267.
- The net increase in property taxes (\$1,415), sales tax (\$211), and utility taxes for electric (\$82) and water (\$61) greatly offset the decline of gambling tax (\$12) and telephone utility tax (\$91).
- After some declining years civil parking fines increased \$179 from the previous year.
- Reimbursable charges (\$180) increased and activity and program income were up (\$35) in total.
- The major increases in expenditures occurred due to rental rates for the new Civic Center. The facility charge increased the general government (\$541) and culture and recreation (\$659). Recreation also had an excessive increase in wages and benefits (\$137).
- Public safety experienced increases in expenditures (\$349) from jumps in salary and benefits for both police services (\$273) and fire (\$103).
- Banking rates remain very low. However, the City's invested in instruments with longer maturity dates increasing its interest earnings (\$83).

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

Unrestricted net assets of the Water and Sewer Utility at the end of the year amounted to \$16,343, and those for the Sanitation Utility amounted to \$2,269. The total of the two funds accounted for 98% of the total net assets for all enterprise funds. Other factors concerning the finances of these



two funds have already been addressed in the discussion of the City of Moses Lake's business-type activities.

## **BUDGETARY HIGHLIGHTS**

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

The General Fund final revenue budget was \$10 higher and the expenditure \$24 higher than the original budget. The final revenue budget for the Street Fund was \$197 higher (46%) and the expenditure budget was \$464 higher (30%) than the original. This was the result of budget amendments approved by City council during the year. The major budget changes are listed below.

- Revenue for charges for services for the General Fund were higher by \$10 for law enforcement services which offset the \$10 increase in operating supplies incurred by the police department. The other \$14 increase in expenditures was for bi-annual election costs.
- The jump in the Street fund revenue was from increases in taxes of \$176 and \$21 for reimbursement of maintenance services. Major expenditure increases were for construction of a parking lot of \$267, reimbursable labor cost of \$141 and utility charges of \$30.

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

General fund revenues came in over final amended budget by \$902 (4%) and expenditures under by \$ 696 (4%). Street fund had the same results with revenue of \$69 (11%) over and expenditures of \$353 (17%) under budget. Factors contributing to this outcome were:

- Sales taxes were \$208 higher due mainly to unanticipated recovery of the economy. This was countered by the drop in gambling tax and utility tax of \$55 and \$22 respectively.
- The largest variance was in charges for services that reflected increased revenue from reimbursable charges (\$526) for intergovernmental activities, retail sales (\$94), and activity fees (\$113). Intergovernmental revenues were up due to unexpected grants.
- The largest negative variance came from civil parking fines of \$260, and licenses of \$116, which include reductions in building permits (\$78) and business licenses (\$31).
- The street fund received \$72 more vehicle excise tax revenue from the state than was expected while project expenditures were lower by \$40 from lower than anticipated repair costs, \$28 less supplies purchased and \$12 less utilities used.
- The difference in economic development was a combination of lower wages (\$94) and medical benefits (\$50) related to an unfilled staff position. Culture and recreation is a combination of lower wages (\$92), medical benefits (\$72) and operating supplies (\$35) which were projected to increase with added programs.
- Public safety had a decrease in costs related to traffic light and speed cameras (\$119) due to a period in which two cameras were out of operation and lower medical benefits (\$113) and reimbursable charges (\$125) paid by the fire department for work done by others. Conversely there was an increase in medical benefits (\$65) for the police department due to a switch in their coverage and (\$192) for first year charges of fire hydrant rent.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities, aquatic facilities, and streets . The total increase in the City of Moses Lake's investment in capital assets for the current fiscal year was 9% (a 6% increase for governmental activities and a 12% increase for business-type activities).

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

- Park improvements totaling \$342 were added in 2011.
- New equipment was purchased for \$892, which included a pavement patch truck (\$160).
- Two large street improvement projects totaling \$1,601 were completed during the year.
- Construction in Progress increased significantly from the building of the City Civic Center (\$6,611), Reservoir #9 (\$1,701), and improvements to operations facility (\$1,060).
- A sewer project of \$1,285 was complete and pump house was built for \$569.

Additional information on 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, bridges, and storm water system. The city has made a commitment to preserve and maintain the street and storm water infrastructure at an acceptable condition rather than recording depreciation. The rating scales for paved streets, bridges and storm water system 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

### City of Moses Lake's Capital Assets

(net of depreciation)

actual amounts

	Government Activities	Business-type Activities	Total
Land and land improvements	\$5,336,510	\$1,157,773	\$6,494,283
Buildings	15,220,433	25,743,566	40,963,999
Machinery and equipment	4,000,073	1,563,557	5,563,630
Infrastructure	37,085,757	45,799,877	82,885,634
Construction in progress	11,014,986	4,086,145	15,101,131
Total assets	<u>\$72,657,759</u>	<u>\$78,350,918</u>	<u>\$151,008,677</u>

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.

Storm water assets consist of both runoff treatment and control structures. Components of the storm water system are storm drains, catch basins, dry wells, piping and most recently the construction of a decant facility. The design of the system is to remove stormwater from areas such as streets and sidewalks for flood control and public safety reasons. Currently the City is in the process of documenting evaluating the condition of the entire system.

The City maintains an inventory of these infrastructure assets. With triennial assessments establishing the condition level of the assets, the City makes annual estimates of the cost to maintain it's streets which are also reported in the City's annual Capital Improvement Program. For 2011 the City projected \$1,210 for road maintenance. The actual amount expended was \$775.

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

**Long-term debt.** At the end of the fiscal year, the City of Moses Lake had total bonded debt outstanding of \$24,335. Of this amount, \$12,780 comprises debt backed by the full faith and credit of the government and \$11,555 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	\$ 11,943,332	\$ 836,668	\$ 12,780,000
Revenue debt	-	11,555,000	11,555,000
	<u>\$ 11,943,332</u>	<u>\$12,391,668</u>	<u>\$ 24,335,000</u>

The City of Moses Lake's total bonded debt increased by a net \$3,310 (16%) over the prior fiscal year. The increase was due to \$4,905 of new debt for the betterments and improvements of the City's combined system of water and sewage and paying down \$1,595 on previous debt.

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

Washington State statutes limit the amount of general obligation debt a governmental entity may issue to 7.5% of its total assessed valuation, subject to a 60% majority vote of qualified electors. Of the 7.5% limit, 2.5% is for general purposes, 2.5% for open space/park facilities and 2.5% for utilities. Non-voted (limited tax) general obligation indebtedness is limited to 1.5% of assessed valuation. The combination of unlimited tax and limited tax general obligation debt for all purposes cannot exceed 7.5% of assessed valuation. The City's assessed valuation for 2011 was **\$2,735,224**

and the remaining debt capacity is as follows:

	(Actual amounts)
General	\$ 53,272,663
Open Space/Park Facilities	68,380,595
Utilities	<u>68,380,595</u>
Total	<u>\$190,033,853</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 THE NEXT YEAR'S BUDGETS AND RATES**

After dealing with a sluggish local economy for several years subsequent to the September 11, 2001 terrorist attacks, the city finally realized in mid-2005 some moderate growth in the economy. While this growth was sustained and advanced through 2007 and remains positive, the rate of growth began to slow in 2008, slowed further in 2009 and 2010, and will remain restrained through 2012. The restricted growth in the local economy is due primarily due to the state of the nation's economy.

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

With continued but restrained growth of the local economy, which is providing governmental revenue, at a previously unrealized rate, the City can anticipate providing services at the level now provided and perhaps increase those services in some areas. However, caution will be necessary because of the uncertain effects of the national economies. The aforementioned factors were considered in the preparation of the City's 2012 budget.

In reviewing the building activity in the local economy currently in progress and anticipated for the future, it is anticipated that the local economy should continue to improve in 2012 and perhaps for several years in the future, but at a slower rate, which supports the assumption that current service levels can be maintained and increased with caution. While some sectors have slowed, the City of Moses Lake continues to experience some building activity, contrary to the situation in many parts of the state and country.

Several industrial concerns in and around the City have completed new projects or expansions in 2011. These expansions, additions, and new projects will result in added building activity, a short term influx of construction employment, and in the long term, add industrial jobs to the City's employment base. The expansion and/or new location of industry in and around the City will have a direct effect on the local economy and have an effect on building activity which will affect the City's property tax receipts. Eventually the added employment will result in additional population in and around the City which will affect retail sales and, therefore, the City's retail sales tax receipts.

Property tax increases have been limited by voter approved initiatives. However, gross property tax receipts have increased significantly because of annexations and new construction within the City. The City anticipates continued additional building activity in 2012. The building activity eventually will translate into a higher assessed valuation in the City which will generate additional property taxes up and above the statutory limitation on existing property taxation.

During the current fiscal year, the unreserved fund balance in the General Fund increased. This occurred because of an increase in revenues as previously mentioned. It is expected that the fund balances will be retained through 2012 and further increased. Except for a small allowed property tax increase, no other tax increases were included in preparing the 2012 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 2012 fiscal year.

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

### **Requests for Information**

This financial report is designed to provide a general overview of the City of Moses Lake's finances for all those with an interest in the governments finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 401 S. Balsam, PO Box 1579, Moses Lake, WA 98837.

Chassis

**CITY OF MOSES LAKE****Statement of Net Assets****December 31, 2011**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 8,421,894	\$ 7,004,438	\$ 15,426,332
Cash with escrow agent	0	0	0
Receivables (net of allowances for uncollectibles)	1,560,297	1,930,700	3,490,998
Internal balances	-6,638,422	6,638,422	0
Inventories and prepaid items	230,876	685,637	916,513
Deferred charges	112,390	101,786	214,176
Restricted assets:			
Cash	0	5,420,817	5,420,817
Interest and other receivables	7,224	3,080	10,305
Capital assets (net of accumulated depreciation):			
Land and land improvements	5,336,510	1,157,773	6,494,283
Buildings and other improvements	15,220,433	25,743,566	40,963,999
Machinery and equipment	4,000,073	1,563,557	5,563,630
Infrastructure	37,085,757	45,799,877	82,885,634
Construction in progress	11,014,986	4,086,145	15,101,131
Total assets	<u>76,352,018</u>	<u>100,135,799</u>	<u>176,487,817</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	814,404	924,162	1,738,566
Accrued interest	118,534	177,297	295,831
Unearned revenues	110	2,952	3,062
Noncurrent liabilities:			
Due within one year	1,970,698	1,523,289	3,493,988
Due in more than one year	13,674,951	18,317,421	31,992,373
Total liabilities	<u>16,578,698</u>	<u>20,945,122</u>	<u>37,523,820</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	59,285,986	54,935,856	114,221,842
Restricted for:			
Debt service	0	1,423,884	1,423,884
Capital projects	0	3,984,857	3,984,857
Transportation	0	0	0
Other purposes	0	0	0
Unrestricted	487,334	18,846,080	19,333,415
Total net assets	<u>\$ 59,773,320</u>	<u>\$ 79,190,677</u>	<u>\$ 138,963,997</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, 2011**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating		Governmental Activities	Primary Government	
			Grants and Contributions	Capital Grants and Contributions		Business-type Activities	Total
Primary Government:							
Government activities:							
General government	\$ 5,177,801	\$ 987,186	\$ 500	\$ 0	\$ -4,190,114	\$ 0	\$ -4,190,114
Public safety	8,208,749	1,335,433	225,041	11,329	-6,636,944	0	-6,636,944
Public works	1,849,411	1,509,856	0	0	-339,555	0	-339,555
Transportation	2,757,678	904,680	24,587	884,648	-943,762	0	-943,762
Culture and recreation	5,970,761	1,457,901	42,768	555,548	-3,914,545	0	-3,914,545
Economic Environment	761,298	123,220	0	0	-638,078	0	-638,078
Interest on long-term debt	671,148	0	0	0	-671,148	0	-671,148
Total governmental activities	25,396,846	6,318,278	292,896	1,451,525	-17,334,147	0	-17,334,147
Business-type activities:							
Water/Sewer utility	7,599,119	9,776,867	0	722,385	0	2,900,134	2,900,134
Sanitation	2,962,499	2,420,533	0	0	0	-541,966	-541,966
Ambulance	2,409,424	2,476,305	0	0	0	66,880	66,880
Airport	28,960	36,191	0	0	0	7,231	7,231
Storm Water	477,990	762,632	0	4,378,181	0	4,662,822	4,662,822
Total business-type activities	13,477,992	15,472,528	0	5,100,566	0	7,095,102	7,095,102
Total primary government	\$ 38,874,838	\$ 21,790,806	\$ 292,896	\$ 6,552,091	-17,334,147	7,095,102	-10,239,045
General revenues:							
Property taxes					8,490,927	0	8,490,927
Retail sales and use taxes					5,539,605	0	5,539,605
Business taxes					3,591,144	0	3,591,144
Other taxes					0	0	0
Grants and contributions not restricted to specific programs					0	0	0
Investment earnings						26,888	315,111
Insurance recoveries					288,222	3,716,344	3,716,344
Intergovernmental revenue not restricted to specific programs					0	0	0
Increase in petty cash					0	0	0
Loss on sale of capital asset					0	0	0
Miscellaneous					0	0	0
Transfers, internal activities					-252,800	252,800	0
Total general revenues and transfers					17,657,099	3,996,032	21,653,131
Changes in net assets					322,952	11,091,134	11,414,086
Net assets - beginning					59,450,368	68,099,543	127,549,911
Prior Period adjustment					0	0	0
Changes in reserves					0	0	0
Net assets - ending					59,773,320	79,190,677	138,963,997

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

**CITY OF MOSES LAKE****Balance Sheet****Governmental Funds****December 31, 2011**

	<b>General</b>	<b>Street</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,076,222	\$ 221,547	\$ 1,694,771	\$ 4,992,540
Receivables (net of allowance for uncollectibles):				
Taxes	483,074	0	0	483,074
Assessments	0	0	0	0
Customer accounts	57,862	0	123,334	181,195
Unbilled services	21,246	0	11,547	32,793
Other receivables	565,203	0	30	565,233
Interfund loans receivable	50,854	468	0	51,321
Due from other governments	14,841	0	11,329	26,170
Prepays	100,026	49,606	0	149,632
Total assets	<u>4,369,327</u>	<u>271,621</u>	<u>1,841,011</u>	<u>6,481,959</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	97,793	44,326	21,566	163,684
Salaries and benefits payable	385,302	12,401	0	397,702
Due to other funds	3,102	3,256	11,085	17,444
Revenues collected in advance	110	0	0	110
Interfund loans payable	896,645	0	0	896,645
Deferred revenue	1,058,530	0	100,111	1,158,642
Total liabilities	<u>2,441,482</u>	<u>59,983</u>	<u>132,762</u>	<u>2,634,227</u>
Fund balances:				
Nonspendable:				
Inventories and noncurrent receivables	1,227,411	49,606	46,129	1,323,146
Restricted for:				
Public safety programs	0	0	0	0
Tourism	0	0	268,044	268,044
Debt service	0	0	294,317	294,317
Committed for:				
Municipal facilities	0	0	257,449	257,449
Culture and recreation	0	0	470,104	470,104
Transportation	0	162,032	372,206	534,238
Assigned to contingencies	581,000	0	0	581,000
Unassigned	119,434	0	0	119,434
Total fund balances	<u>1,927,845</u>	<u>211,638</u>	<u>1,708,250</u>	<u>3,847,733</u>
Total liabilities and fund balances	<u>\$ 4,369,327</u>	<u>\$ 271,621</u>	<u>\$ 1,841,011</u>	<u>\$ 6,481,959</u>

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



# CITY OF MOSES LAKE

## Reconciliation of the Governmental Funds Balance Sheet to The Government-wide Statement of Net Assets December 31, 2011

Total Governmental Fund Balances		\$	3,847,733
Amounts reported for governmental activities in the government-wide statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds (exclusive of internal service funds' capital assets).			54,615,700
Other long-term assets are not available to be collected in current period revenues and therefore are deferred in the funds.			1,158,642
Internal service funds are used by management to charge the costs of certain activities, such as insurance, information services, fleet management, and building maintenance, to individual funds. The assets and liabilities of these internal service funds are included in governmental activities on the government-wide statement of net assets.			
	Internal Service funds' net assets	6,685,628	
	Internal payable-charges under cost to business-type activities - prior years	756,930	
	Internal receivable-charges over cost to business-type activities - current years	<u>-686,294</u>	
	Net adjustment to arrive at net assets - governmental activities.		6,756,264
Liabilities, including bonds, loans, and compensated absences, not due and payable in the current period and therefore are not reported in the governmental fund balance sheets, but are reported on the government-wide statement of net assets (exclusive of internal service funds' debt).			
#	Bonds payable	-4,543,831	
	Issuance discount	33,902	
	Capital leases payable	-11,657	
	Accrued interest payable	-78,055	
	Compensated absences	-1,637,165	
	Other postemployment benefits	<u>-400,752</u>	
	Net adjustment to arrive at net assets - governmental activities		-6,637,557
Lease proceeds for which the city has incurred a liability are in an escrow account, but not available because not all requirements have been fulfilled.			0
Bond premiums, discounts, refundings and issuance costs are reported as other financing sources and uses and expenditures in the governmental fund financial statements but capitalized on the government-wide statement of net assets.			25,315
Interest receivables of governmental activities not reported in the funds.			<u>7,224</u>
Net assets of governmental activities		\$	<u><u>59,773,320</u></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, 2011

	General	Streets	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 16,347,242	\$ 0	\$ 1,178,744	\$ 17,525,987
Licenses and permits	457,993	12,677	0	470,670
Intergovernmental revenues	454,341	647,667	199,065	1,301,073
Charges for services	3,849,360	33,448	42,428	3,925,237
Fines and forfeits	392,663	0	30	392,693
Interest earnings	260,816	0	7,182	267,998
Rents and royalties	156,571	0	0	156,571
Contributions/donations	0	0	67,216	67,216
Assessments	0	0	92,901	92,901
Miscellaneous	2,676	792	2,611	6,078
Total revenues	<u>21,921,661</u>	<u>694,584</u>	<u>1,590,178</u>	<u>24,206,423</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,079,022	0	500	2,079,522
Public safety	8,162,142	0	294,366	8,456,508
Public works	1,935,963	0	0	1,935,963
Transportation	0	1,674,578	1,136,854	2,811,431
Economic environment	788,012	0	0	788,012
Culture and recreation	5,366,558	0	238,259	5,604,817
Capital outlay	64,693	0	540,683	605,376
Debt service:				
Principal	0	0	561,090	561,090
Interest and debt issue costs	53,608	0	211,247	264,855
Total expenditures	<u>18,449,999</u>	<u>1,674,578</u>	<u>2,982,997</u>	<u>23,107,574</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,471,663</u>	<u>-979,994</u>	<u>-1,392,819</u>	<u>1,098,850</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	49,223	1,200,000	1,753,240	3,002,462
Transfers (out)	-2,467,780	-152,300	-708,682	-3,328,762
Donations of capital assets	0	0	0	0
Sales of capital assets	73,664	0	0	73,664
Miscellaneous nonoperating	0	0	0	0
Capital lease	0	0	0	0
Proceeds of interfund debt	0	0	0	0
Proceeds of G.O. bonds	0	0	0	0
Discount on GO bonds issued	0	0	0	0
Total other financing sources (uses)	<u>-2,344,894</u>	<u>1,047,700</u>	<u>1,044,558</u>	<u>-252,636</u>
Net change in fund balances	<u>1,126,769</u>	<u>67,706</u>	<u>-348,262</u>	<u>846,214</u>
Fund balances-beginning	801,076	143,932	2,056,512	3,001,519
Prior period adjustments	0	0	0	0
Changes in reserves - petty cash	0	0	0	0
Changes in reserves - vacation payouts	0	0	0	0
Changes in reserves - inventories	0	0	0	0
Fund balances-ending	<u>\$ 1,927,845</u>	<u>\$ 211,638</u>	<u>\$ 1,708,250</u>	<u>\$ 3,847,733</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, 2011

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Net changes in fund balances - total governmental funds:	\$	846,214
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Amounts reported for governmental activities in the government-wide statement of activities are different because:

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

Capital outlay	605,376	
Depreciation expense	<u>-731,420</u>	
Net increase in net assets - governmental activities		-126,044

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund statement.	220,349
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The net effect of various miscellaneous transactions involving capital assets (i.e. sales, disposals, and donations) is to increase net assets.

Contributed assets	884,648	
Gain(loss) on sale/disposals of assets	<u>-3,099,864</u>	
Net increase in net assets - governmental activities		-2,215,217

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

Lease/Bond proceeds reported as debt	0	
Discount on Bonds paid out	0	
Debt issue costs paid out	0	
Debt principal payments	<u>561,090</u>	
Net increase in net assets - governmental activities		561,090

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Other post employment benefits	-43,281	
Accrued debt interest	8,849	
Compensated absences	-98,157	
Amortization of deferred bond costs	<u>-4,084</u>	
Net decrease in net assets - governmental activities		-136,673

Accrued interest revenue in the statement of activities does not provide current financial resources and is not reported as revenue in governmental funds.	4,148
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Internal service funds are used by management to charge the costs of equipment, insurance, data processing, and fleet management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.

Internal service funds change in net assets	1,855,380	
lease escrow balance at 12/31/09	0	
Loss (gain) from charges to business-type activities	<u>-686,294</u>	
Net increase in net assets - governmental activities		1,169,086

Change in net assets of governmental activities	<u>\$</u>	<u>322,952</u>
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The notes to the financial statements are an integral part of this statement.

**CITY OF MOSES LAKE****Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual****General Fund****For the Year Ended December 31, 2011**

	<b>Budgeted Amounts</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>REVENUES</b>				
Taxes	\$ 16,211,800	\$ 16,211,800	\$ 16,347,242	\$ 135,442
Licenses and permits	574,700	574,700	457,993	-116,707
Intergovernmental revenues	290,000	290,000	454,341	164,341
Charges for services	2,969,100	2,979,100	3,849,360	870,260
Fines and forfeits	653,000	653,000	392,663	-260,337
Interest earnings	160,000	160,000	260,816	100,816
Rents and royalties	148,900	148,900	156,571	7,671
Contributions/donations	0	0	0	0
Assessments	0	0	0	0
Miscellaneous	2,000	2,000	2,676	676
Total revenues	<u>21,009,500</u>	<u>21,019,500</u>	<u>21,921,661</u>	<u>902,161</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,109,100	2,123,100	2,079,022	44,078
Public safety	8,370,900	8,380,900	8,162,142	218,758
Public works	2,064,100	2,064,100	1,935,963	128,137
Transportation	0	0	0	0
Economic environment	969,600	969,600	788,012	181,588
Culture and recreation	5,518,900	5,518,900	5,366,558	152,342
Capital outlay	35,800	35,800	64,693	-28,893
Debt service:				
Principal	0	0	0	0
Interest and debt issue costs	53,700	53,700	53,608	92
Total expenditures	<u>19,122,100</u>	<u>19,146,100</u>	<u>18,449,999</u>	<u>696,101</u>
Excess of revenues over expenditures	<u>1,887,400</u>	<u>1,873,400</u>	<u>3,471,663</u>	<u>1,598,263</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	28,500	50,500	49,223	-1,277
Transfers (out)	-2,365,000	-2,544,300	-2,467,780	76,520
Donations of capital assets	0	0	0	0
Sales of capital assets	0	73,700	73,664	-36
Miscellaneous nonoperating	0	0	0	0
Proceeds of G.O. bonds	0	0	0	0
Payments to refunded debt escrow agent	0	0	0	0
Proceeds from capital lease	0	0	0	0
Total other financing sources (uses)	<u>-2,336,500</u>	<u>-2,420,100</u>	<u>-2,344,894</u>	<u>75,206</u>
Net change in fund balances	<u>-449,100</u>	<u>-546,700</u>	<u>1,126,769</u>	<u>1,673,469</u>
Fund balances-beginning	1,835,400	1,835,400	801,076	-1,034,324
Prior period adjustments	0	0	0	0
Changes in reserves - petty cash	0	0	0	0
Changes in reserves - vacation payoff	0	0	0	0
Changes in reserves - inventories	0	0	0	0
Fund balances-ending	<u>\$ 1,386,300</u>	<u>\$ 1,288,700</u>	<u>\$ 1,927,845</u>	<u>\$ 639,145</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, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>REVENUES</b>				
Taxes	\$ 0	\$ 0	\$ 0	\$ 0
Licenses and permits	20,000	20,000	12,677	-7,323
Intergovernmental revenues	400,000	575,600	647,667	72,067
Charges for services	8,600	29,800	33,448	3,648
Fines and forfeits	0	0	0	0
Interest earnings	0	0	0	0
Rents and royalties	0	0	0	0
Contributions/donations	0	0	0	0
Assessments	0	0	0	0
Miscellaneous	0	0	792	792
Total revenues	428,600	625,400	694,584	69,184
<b>EXPENDITURES</b>				
Current:				
General government	0	0	0	0
Public safety	0	0	0	0
Public Works	0	0	0	0
Transportation	1,546,600	1,743,400	1,674,578	68,822
Economic environment	0	0	0	0
Culture and recreation	0	0	0	0
Capital outlay	17,000	283,800	0	283,800
Debt service:				
Principal	0	0	0	0
Interest & debt issue costs	0	0	0	0
Total expenditures	1,563,600	2,027,200	1,674,578	352,622
Deficiency of revenues under expenditures	-1,135,000	-1,401,800	-979,994	421,806
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,200,000	1,466,800	1,200,000	-266,800
Transfers (out)	-152,300	-152,300	-152,300	0
Donations of capital assets	0	0	0	0
Sales of capital assets	0	0	0	0
Miscellaneous nonoperating	0	0	0	0
Proceeds of G.O. bonds	0	0	0	0
Payments to refunded debt escrow agent	0	0	0	0
Proceeds from capital lease	0	0	0	0
Total other financing sources (uses)	1,047,700	1,314,500	1,047,700	-266,800
Net change in fund balances	-87,300	-87,300	67,706	155,006
Fund balances-beginning	102,600	102,600	143,932	41,332
Prior period adjustments	0	0	0	0
Changes in reserves - petty cash	0	0	0	0
Changes in reserves - vacation payoff	0	0	0	0
Changes in reserves - inventories	0	0	0	0
Fund balances-ending	\$ 15,300	\$ 15,300	\$ 211,638	\$ 196,338

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, 2011**

Page 1 of 2

	Business-type Activities-Enterprise Funds						Governmental
	Water/ Sewer	Sanitation	Ambulance	Airport	Storm Water	Totals	Activities Internal Service Funds
<b>ASSETS</b>							
Current assets:							
Cash and cash equivalents	\$ 5,938,599	\$ 485,543	\$ 230,035	\$ 71,352	\$ 278,909	\$ 7,004,438	\$ 3,429,353
Receivables (net of allowance for uncollectibles)	1,009,113	312,764	480,534	30,644	97,646	1,930,700	0
Due from other funds	0	0	2,984	0	1,558	4,543	0
Interfund loans receivable	5,741,188	1,594,839	0	0	0	7,336,027	0
Intergovernmental receivable	0	0	0	0	0	0	271,832
Inventories and prepaid expenses	553,137	124,738	3,849	0	3,913	685,637	81,243
Total current assets	<u>13,242,038</u>	<u>2,517,885</u>	<u>717,401</u>	<u>101,996</u>	<u>382,026</u>	<u>16,961,345</u>	<u>3,782,429</u>
Noncurrent assets:							
Restricted assets:							
Revenue bond reserves/debt service:							
Cash and cash equivalents	1,435,960	0	0	0	0	1,435,960	0
Interest receivable	3,080	0	0	0	0	3,080	0
Construction in progress:							
Cash and cash equivalents	<u>3,984,857</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,984,857</u>	<u>0</u>
Total restricted assets	<u>5,423,897</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,423,897</u>	<u>0</u>
Capital assets, net of accumulated depreciation:							
Land and land rights	836,006	0	0	460	36,180	872,646	608,951
Buildings	25,421,727	0	0	36,548	285,291	25,743,566	3,078,543
Infrastructure	41,036,328	0	0	54,741	4,708,808	45,799,877	0
Machinery and equipment	1,453,517	0	110,039	0	0	1,563,557	3,616,320
Construction in progress	4,071,758	0	0	14,387	0	4,086,145	10,738,244
Intangible assets	285,127	0	0	0	0	285,127	0
Total capital assets	<u>73,104,464</u>	<u>0</u>	<u>110,039</u>	<u>106,136</u>	<u>5,030,279</u>	<u>78,350,918</u>	<u>18,042,059</u>
Other noncurrent assets:							
Deferred charges	<u>101,786</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>101,786</u>	<u>87,075</u>
Total non current assets	<u>78,630,147</u>	<u>0</u>	<u>110,039</u>	<u>106,136</u>	<u>5,030,279</u>	<u>83,876,601</u>	<u>18,129,134</u>
Total assets	<u>\$ 91,872,185</u>	<u>\$ 2,517,885</u>	<u>\$ 827,441</u>	<u>\$ 208,131</u>	<u>\$ 5,412,305</u>	<u>\$ 100,837,947</u>	<u>\$ 21,911,563</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, 2011**

Page 2 of 2

	Business-type Activities-Enterprise Funds						Governmental
	Water/ Sewer	Sanitation	Ambulance	Airport	Storm Water	Totals	Activities Internal Service Funds
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable	\$ 526,225	\$ 219,742	\$ 14,344	\$ 1,490	\$ 2,577	\$ 764,378	\$ 219,357
Salaries payable	64,587	2,149	54,704	0	9,581	131,020	33,660
Interfund loans payable	0	0	522,574	0	80,396	602,970	5,836,412
Revenues collected in advance	0	0	2,952	0	0	2,952	0
Interest payable	0	0	0	0	0	0	40,480
Capital leases payable	36,964	0	28,754	0	0	65,718	580,469
G. O. bonds payable	41,667	0	0	0	0	41,667	809,502
Compensated absences	31,705	183	19,508	0	778	52,174	7,158
Accrued interest	177,297	0	0	0	0	177,297	0
Due to other funds	23,930	0	4,144	0	468	28,542	9,878
Intergovernmental loan payable	658,731	0	0	0	0	658,731	0
Revenue bonds payable	705,000	0	0	0	0	705,000	0
Other short-term liabilities	3,139	25,624	0	0	0	28,763	0
Total current liabilities	<u>2,269,245</u>	<u>247,697</u>	<u>646,981</u>	<u>1,490</u>	<u>93,800</u>	<u>3,259,212</u>	<u>7,536,917</u>
Noncurrent liabilities:							
Revenue bonds payable(net discount/premium)	11,201,750	0	0	0	0	11,201,750	0
G.O. bonds payable(net discount/premium)	788,220	0	0	0	0	788,220	6,714,325
Intergovernmental loans payable	5,813,591	0	0	0	0	5,813,591	0
Compensated absences	285,344	1,643	175,576	0	7,005	469,568	64,424
Lease payable	44,293	0	0	0	0	44,293	910,268
Total noncurrent liabilities	<u>18,133,198</u>	<u>1,643</u>	<u>175,576</u>	<u>0</u>	<u>7,005</u>	<u>18,317,421</u>	<u>7,689,017</u>
Total liabilities	<u>20,402,443</u>	<u>249,340</u>	<u>822,556</u>	<u>1,490</u>	<u>100,805</u>	<u>21,576,634</u>	<u>15,225,934</u>
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt	49,718,156	0	81,286	106,136	5,030,279	54,935,856	9,166,557
Restricted for debt service	1,423,884	0	0	0	0	1,423,884	0
Restricted for capital purposes	3,984,857	0	0	0	0	3,984,857	0
Unrestricted	16,342,846	2,268,545	-76,401	100,506	281,221	18,916,716	-2,480,928
Total net assets	<u>\$ 71,469,742</u>	<u>\$ 2,268,545</u>	<u>\$ 4,884</u>	<u>\$ 206,642</u>	<u>5,311,500</u>	<u>79,261,313</u>	<u>\$ 6,685,628</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.						-70,636	
Net assets of business-type activities						<u>\$ 79,190,677</u>	

**CITY OF MOSES LAKE**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For Year Ended December 31, 2011**

	Business-type Activities-Enterprise Funds					Governmental Activities	
	Water/ Sewer	Sanitation	Ambulance	Airport	Storm Water	Totals	Internal Service Funds
<b>OPERATING REVENUES</b>							
Charges for services	\$ 9,125,077	\$ 2,342,268	\$ 2,476,206	\$ 0	\$ 762,632	\$ 14,706,182	\$ 5,994,712
Intergovernmental revenues	0	0	0	0	0	0	6,282
Miscellaneous revenues	129,031	438	99	36,191	0	165,759	0
Total operating revenues	9,254,108	2,342,705	2,476,305	36,191	762,632	14,871,941	6,000,994
<b>OPERATING EXPENSES</b>							
Salaries and benefits	1,936,390	72,626	1,703,421	0	276,085	3,988,523	929,811
Supplies and contractual services	3,153,485	2,903,927	783,146	8,380	195,587	7,044,524	1,805,062
Utilities	408,877	0	0	4,859	0	413,737	92,062
Repairs and maintenance	110,095	0	4,333	5,325	0	119,753	156,687
Insurance claims and expenses	0	0	0	0	22,711	22,711	608,649
Depreciation and amortization	2,030,522	0	13,251	11,304	0	2,055,076	725,650
Total operating expenses	7,639,370	2,976,553	2,504,150	29,868	494,383	13,644,324	4,317,921
Operating income (loss)	1,614,738	-633,848	-27,845	6,324	268,249	1,227,618	1,683,073
<b>NONOPERATING REVENUES (EXPENSES)</b>							
Investment earnings	26,888	0	0	0	0	26,888	16,076
Insurance recoveries	3,716,344	0	0	0	0	3,716,344	0
Capital Grants	0	0	0	0	0	0	0
Intergovernmental payments	-65,000	0	0	0	0	-65,000	0
Gain on refunding bonds	0	0	0	0	0	0	0
Interest expense	-445,945	0	-8,018	0	-1,000	-454,962	-411,059
Miscellaneous revenues	615,164	77,828	0	0	0	692,991	0
Miscellaneous expenses	0	0	0	0	0	0	0
Gain (loss) on disposal of assets	-92,405	0	0	0	0	-92,405	-3,131
Total nonoperating revenues (expenses)	3,755,046	77,828	-8,018	0	-1,000	3,823,857	-398,113
Income (loss) before contributions and transfers	5,369,784	-556,020	-35,863	6,324	267,249	5,051,474	1,284,960
Capital contributions	722,385	0	0	0	4,378,181	5,100,566	570,420
Transfers in	0	0	252,800	0	0	252,800	0
Transfers out	0	0	0	0	0	0	0
Change in net assets	6,092,170	-556,020	216,937	6,324	4,645,430	10,404,840	1,855,380
Total net assets - beginning	65,377,572	2,824,565	-212,053	200,318	666,070		4,830,248
Prior period adjustments	0	0	0	0	0	0	0
Change in accounting principal	0	0	0	0	0	0	0
Total net assets - ending	\$ 71,469,742	\$ 2,268,545	\$ 4,884	\$ 206,642	\$ 5,311,500	\$ 686,294	\$ 6,685,628
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.							
Change in net assets of business-type activities							\$ 11,091,134

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, 2011**

Page 1 of 2

	Business-type Activities-Enterprise Funds						Governmental Activities
	Water/ Sewer	Sanitation	Ambulance	Airport	Storm Water	Totals	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Receipts from customers	\$ 8,942,170	\$ 2,305,841	\$ 2,459,202	\$ 26,768	\$ 747,853	\$ 14,481,834	\$ 6,000,994
Payments to suppliers	-3,367,494	-2,900,688	-777,416	-19,793	-216,761	-7,282,152	-2,827,490
Payments to employees	-1,941,661	-77,056	-1,675,876	0	-267,243	-3,961,836	-935,651
Miscellaneous revenues	689,174	78,262	2,952	0	0	770,389	0
Miscellaneous expenses	2,857	0	-1,214	0	-1,350	293	0
Net cash provided by (used for) operating activities	4,325,045	-593,641	7,648	6,975	262,500	4,008,528	2,237,853
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
#	0	0	0	0	0	0	0
Payments from (to) other funds	23,930	270,662	-126,266	0	-13,344	154,982	9,878
Advances from (to) other funds	-1,441,188	0	0	0	0	-1,441,188	0
Transfers from (to) other funds	0	0	252,800	0	0	252,800	0
Insurance recoveries	3,716,344	0	0	0	0	3,716,344	0
Other intergovernmental payments	15,000	0	0	0	0	15,000	0
Receipt of grant funds	0	0	0	0	0	0	0
Miscellaneous nonoperating revenue	0	0	0	0	0	0	0
Net cash used for noncapital financing activities	2,314,086	270,662	126,534	0	-13,344	2,697,938	9,878
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Proceeds from capital debt	4,450,000	0	0	0	0	4,450,000	2,204,812
Principal paid on debt	-514,728	0	-27,778	0	0	-542,506	-1,570,925
Interest paid on debt	-362,429	0	-8,018	0	0	-370,446	-403,703
Capital contributions	395,161	0	0	0	4,256,741	4,651,902	604,522
Purchases of capital assets	-5,585,600	0	0	-14,387	-4,587,588	-10,187,575	-7,165,997
Proceeds of capital grants	0	0	0	0	121,440	121,440	0
Proceeds from sale of capital assets	0	0	0	0	0	0	10,065
Prior year adjustment	0	0	0	0	0	0	0
Net cash provided by (used) for capital and related financing activities	-1,617,596	0	-35,795	-14,387	-209,407	-1,877,186	-6,321,226
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Interest income	0	0	0	0	0	0	184
Net cash provided by investing activities	0	0	0	0	0	0	184
<b>Net increase (decrease) in cash and cash equivalents</b>	5,021,535	-322,978	98,387	-7,412	39,749	4,829,280	-4,073,311
Cash and cash equivalents, January 1	6,337,881	808,521	131,648	78,765	239,160	7,595,975	7,502,665
Cash and cash equivalents, December 31	<u>\$ 11,359,416</u>	<u>\$ 485,543</u>	<u>\$ 230,035</u>	<u>\$ 71,352</u>	<u>\$ 278,909</u>	<u>\$ 12,425,255</u>	<u>\$ 3,429,353</u>

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, 2011**

Page 2 of 2

	Business-type Activities-Enterprise Funds						Governmental Activities
	Water/ Sewer	Sanitation	Ambulance	Airport	Storm Water	Totals	Internal Service Funds
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>							
Operating income (loss)	\$ 1,614,738	\$ -633,848	\$ -27,845	\$ 6,324	\$ 268,249	\$ 1,227,618	\$ 1,683,073
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation	2,030,522	0	13,251	11,304	0	2,055,076	725,650
Allowance for uncollectible accounts	0	0	30,875	0	0	30,875	-
Decrease (increase) in accounts receivable	293,927	-36,280	-47,978	-9,423	-14,778	185,467	0
Decrease (increase) in taxes receivable	0	0	0	0	0	0	-
Decrease (increase) in inventory	-100,413	-2,668	2,602	0	0	-100,478	0
Decrease (increase) in prepaid expenses	0	0	0	0	-350	-350	10,316
(Decrease) increase in accounts payable	405,376	5,906	7,461	-1,229	1,537	419,052	-175,346
(Decrease) increase in salaries payable	2,762	-149	7,502	0	4,648	14,763	3,856
(Decrease) increase in advances	0	0	1,738	0	0	1,738	0
(Decrease) increase in compensated absences	-8,033	-4,430	20,043	0	4,194	11,774	-9,696
(Decrease) increase in miscellaneous revenues	86,165	77,828	0	0	-1,000	162,993	
Total adjustments	2,710,307	40,207	35,493	651	-5,749	2,780,911	554,780
Net cash provided (used) by operating activities	\$ 4,325,045	\$ -593,641	\$ 7,648	\$ 6,975	\$ 262,500	\$ 4,008,528	\$ 2,237,853
Noncash investing, capital, and financing activities:							
Contributions of capital assets	\$ 603,154	0	0	0	\$ 4,256,741	\$ 4,859,895	0
Addition to capital leases	0	0	0	0	0	0	\$ 815,205
Transfer of capital assets	0	0	0	0	0	0	0

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

**CITY OF MOSES LAKE**  
**Statement of Net Assets**  
**Fiduciary Funds**  
**December 31, 2011**

	<b>Firemen's Pension Trust Fund</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 472,192	\$ 902,288
Deposits with fiscal agents/trustees		0
Escrow accounts		372,789
Investments		0
Receivables (net of allowance for uncollectibles):		
Taxes	0	0
Other receivables		0
Interfund loans receivable	0	0
Total assets	<u>472,192</u>	<u>1,275,077</u>
<b>LIABILITIES</b>		
Accounts payable	435	0
Custodial accounts payable		1,275,077
Due to other funds		0
Long-term liabilities	<u>546,233</u>	<u>0</u>
Total liabilities	<u>546,668</u>	<u>1,275,077</u>
<b>NET ASSETS</b>		
Held in trust for pension benefits and other purposes	<u>\$ -74,477</u>	<u>\$ 0</u>

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

**CITY OF MOSES LAKE**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the year ended December 31, 2011**

	<b>Firemen's Pension Trust Fund</b>
<b>ADDITIONS</b>	
Taxes	0
Intergovernmental revenues	\$ 24,784
Interest earnings	6,235
Transfers in	73,500
Total additions	<u>104,519</u>
<b>DEDUCTIONS</b>	
Benefits	19,634
Medical insurance and direct medical payments	142,472
OPEB expense	60,252
Total deductions	<u>222,357</u>
Change in net assets	-117,838
Net assets - beginning	43,362
OPEB prior year(s)	0
Net assets - ending	<u><u>\$ -74,477</u></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, 2011**

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

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

**A. Reporting Entity**

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

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

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

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non fiduciary activities of the primary government. 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 the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resource's measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The City considers property taxes as available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise 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. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government.

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing service, producing and delivering goods in connection with a proprietary fund's principal on going 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

##### Scope of Budget

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

Annual appropriated budgets are adopted for the general and certain special revenue funds on the modified accrual basis of accounting. Grant related special revenue funds and capital project funds adopt budgets on an individual project basis and for the fiscal periods that relate to the life of the project. The budget is based on generally accepted accounting principals (GAAP). There is no difference between budget basis and GAAP.

Any unexpended appropriation balances lapse at the end of the fiscal year (except for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned). Proprietary and fiduciary funds are budgeted for management purposes only. National Council on Governmental Accounting Statement No. 1 does not require, and the financial statements do not present, budgetary comparisons for proprietary or fiduciary fund types.

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

##### Amending the Budget



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

When the Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by one more than the majority.

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

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

E. Assets, Liabilities and Equities

Cash and Cash Equivalents

It is the city's policy to invest all temporary cash surpluses. At December 31, 2011, the treasurer was holding \$17,673,809 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds that are statutorily to receive interest and the balance of the interest is credited to the General Fund according to the RCW and pursuant to city ordinances.

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

Receivables

Taxes receivable consist of property taxes and related interest and penalties (See Property Taxes Note No. 5). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefitted. As of December 31, 2011, there was no special assessment's receivables delinquent.

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

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

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

### Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as 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.

### 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		1,435,960
Cash Investments - Construction		3,984,857
Interest receivable		3,080
		<hr/>
Total Restricted Assets	\$	5,423,897
		<hr/>

### Capital Assets - See Capital Assets and Depreciation Note No. 6

Capital assets, which include property, plant, equipment, and infrastructure assets, (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the city as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the city during the current fiscal year is \$1,130,875.

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

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

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

### Compensated Absences

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

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

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.

### Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

### Deferred Revenues

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

	Unavailable	Unearned
Delinquent property taxes receivable	\$ 483,074	\$ -
Revenues not applied	-	575,457
Special assessments not yet due	100,111	-
	<u>\$ 583,185</u>	<u>\$ 575,457</u>

### Fund Balance Classification

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type definitions, the City classifies governmental fund balances as follows:

- Non-spendable-includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted- includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed- includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned- includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Finance Director/ City Manager.
- Unassigned- includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The City uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

### Minimum Fund Balance

The City has a formal policy on General Fund Balance as follows:

It will be the policy of the City to establish and maintain a General Fund Balance of at least ten percent (10%) of the total General Fund budgeted revenue, excluding the beginning fund balance and identified one-time revenues. Any and all expenditures from the General Fund Balance Reserve account shall require a majority vote of the entire City Council.

### Stabilization Arrangements

Separate from, and in addition to the General Fund Balance it is recommended that the City establish and maintain a Contingency Reserve in accordance with RCW 35A.33.040. The reserve will be available for unforeseen urgent or emergency needs. The contingency reserve is intended to provide for unanticipated expenditures or revenue shortfalls of a non-recurring nature. The maximum allowable amount in the contingency reserve is 37.5 cents per thousand dollars of assessed valuation. Current Balance is \$581,000.

#### F. Adoption of New GASB Pronouncements

The City implemented the following GASB Pronouncements for the fiscal year ended December 31, 2011.

##### Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions

This Statement will improve financial reporting by providing fund balance categories and classification that will be more easily understood. These changes affect the City and are reflected on the Balance Sheet for Governmental Funds and an explanation of changes are in the notes.

##### Statement No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans

Effective date: The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. This Statement doesn't affect the City's OPEB reporting.

##### Statement No. 59 Financial Instruments Omnibus

The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. This statement does not apply to the City.

#### G. Future Adoption of GASB Pronouncements

The following GASB pronouncements have been issued but are not effective as of December 2011:

- Statement No. 66 Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62
- Statement No. 65 Items Previously Reported as Assets and Liabilities
- Statement No. 64 Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53
- Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position
- Statement No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements
- Statement No. 61 The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34
- Statement No. 60 Accounting and Financial Reporting for Service Concession Arrangements

## **NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

### Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets

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

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

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

## **NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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

### Budgetary Compliance Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

##### Deposits

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

## Investments

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

At December 31, 2011, the bank balance was \$4,637,110. Of the bank balance \$100,000 was covered by Federal Depositary 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.

As of December 31, 2011 the City had the following investments:

Investment Type	Fair Value	Rating	Weighted Average Maturity (days)
Grant County Invest Pool	\$ 9,120,609	not rated	16
WA State Invest Pool	8,553,200	not rated	15
Total Fair Value	<u>\$ 17,673,809</u>		
Portfolio Weighted Average Maturity			15

*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:* Safety of principle is the foremost objective of the City. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Washington State Investment Pool, is like a 2a-7 fund, managed by the State Treasurer's Office is limited to high quality obligations with limited maximum and average maturities which is to minimize both market and credit risk. The pool is unrated but the state of Washington's Legislature has regulatory oversight. The City's general obligation bonds were rated "A" by Standards and Poor's in 2010. The same rating agency has upgraded the City's Revenue Bonds to "AA-" affirming a stable outlook in 2011.

Under the City's investment policy, all temporary cash surpluses are invested. The City's investment policy is more conservative to limit risk, investing the portfolio in treasury notes and bills, certificates of deposit with qualified public depositories, and bankers acceptances with a credit rating for A1 or



P1 by nationally recognized rating organizations. The City's investments are in compliance with all state investment laws and City investment policies.

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

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

## **NOTE 5 - PROPERTY TAXES**

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

### Property Tax Calendar

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

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as deferred revenue and recognized as revenue of the period to which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

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

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

2. The Washington State Constitution limits the total regular property taxes to one percent (1%) of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent (1%) limit.

The city's regular levy for 2011 was \$3.20970 per \$1,000 on an assessed valuation of \$3,185,018,910 for a total regular levy of \$10,222,955.

## NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

### Capital Assets

A summary of capital assets for the year ended December 31, 2011 was as follows:

<b>Governmental Activities</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Depreciated:				
Land	\$ 5,335,035	\$ 1,476	\$ -	\$ 5,336,510
Infrastructure*	36,509,098	1,200,243	1,275,457	36,433,884
CIP	4,937,488	7,968,225	1,890,727	11,014,986
Total Capital Assets not Depreciated	<u>46,781,620</u>	<u>9,169,944</u>	<u>3,166,185</u>	<u>52,785,380</u>
Capital Assets Depreciated:				
Buildings	26,422,281	120,579	2,100,195	24,442,666
Intangible	147,051	-	-	147,051
Machinery and Equipment	10,417,627	1,256,225	310,256	11,363,595
Infrastructure	1,448,608	-	-	1,448,608
Total	<u>38,435,567</u>	<u>1,376,804</u>	<u>2,410,451</u>	<u>37,401,920</u>
Less Accumulated Depreciation:				
Buildings	8,731,518	784,879	294,164	9,222,233
Intangible	147,051	-	-	147,051
Machinery and Equipment	7,006,231	635,976	278,685	7,363,522
Infrastructure	760,519	36,215	-	796,734
Total Accumulated Depreciation	<u>16,645,319</u>	<u>1,457,070</u>	<u>572,848</u>	<u>17,529,541</u>
Total Capital Assets Depreciated, Net	<u>21,790,248</u>	<u>(80,266)</u>	<u>1,837,603</u>	<u>19,872,379</u>
Governmental Activities Capital Assets, Net	<u>\$ 68,571,868</u>	<u>\$ 9,089,678</u>	<u>\$ 5,003,787</u>	<u>\$ 72,657,759</u>

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

<b>Business-type Activities</b>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Depreciated:				
Land	\$ 795,687	\$ 76,959	\$ -	\$ 872,646
CIP	784,754	6,370,894	3,069,502	4,086,145
Intangible	285,127			285,127
Total Capital Assets not Depreciated	<u>1,865,567</u>	<u>6,447,853</u>	<u>3,069,502</u>	<u>5,243,918</u>
Capital Assets Depreciated:				
Buildings	33,722,946	927,810	146,761	34,503,995
Machinery and Equipment	2,275,793	59,668	10,715	2,324,746
Infrastructure	61,577,115	6,202,885	\$70,250	67,709,750
Total	<u>97,575,854</u>	<u>7,190,362</u>	<u>227,726</u>	<u>104,538,491</u>
Less Accumulated Depreciation:				
Buildings	8,145,140	735,187	119,899	8,760,428
Machinery and Equipment	694,517	77,387	10,715	761,189
Infrastructure	20,672,149	1,242,575	\$4,851	21,909,873
Total Accumulated Depreciation	<u>29,511,807</u>	<u>2,055,149</u>	<u>135,465</u>	<u>31,431,491</u>
Total Capital Assets Depreciated, Net	<u>68,064,047</u>	<u>5,135,214</u>	<u>92,261</u>	<u>73,107,000</u>
Business-type Activities Capital Assets, Net	<u>\$ 69,929,615</u>	<u>\$ 11,583,066</u>	<u>\$ 3,161,763</u>	<u>\$ 78,350,918</u>

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

<u>Governmental Activities</u>	<u>Depreciation</u>
General Government	\$ 39,322
Public Safety	22,252
Transportation	37,781
Public Works	4,117
Culture and Recreation	627,948
Capital Assets Held by the Government's Internal Service Funds are Charged to the Various Functions Based on Their Usage of the Assets	<u>725,650</u>
Total Depreciation - Governmental Activities	<u>\$ 1,457,070</u>
 <u>Business-Type Activities</u>	 <u>Depreciation</u>
Water/Sewer	\$ 2,030,595
Ambulance	13,250
Airport	11,304
Total Depreciation - Business-Type Activities	<u>\$ 2,055,149</u>

### Collections Not Capitalized

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

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

### Construction Commitments

The city has active construction projects as of December 31, 2011. Active projects are: Civic Center, a well project and a sewer project. At year-end the government's commitments with contractors are as follows:

Project	Total Contract Amount Awarded	Spent to Date	Remaining Commitment
Central Operations Facility	\$ 1,236,264	\$ 1,060,121	\$ 176,143
2011 Sewer Lining	779,817	777,658	2,159
Civic Center Parking Lot	879,235	819,060	60,175
Well 11 & 24 Pump Houses	369,773	882	368,891
Reservoir #9	2,007,586	1,701,134	306,452
Total	<u>\$ 5,272,675</u>	<u>\$ 4,358,855</u>	<u>\$ 913,820</u>

### **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

or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov). The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

## Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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.

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

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased 3 percent annually. This benefit was eliminated by the Legislature effective July 1, 2011. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55.

The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance is granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of on-the-job injury.

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

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

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

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

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

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned 10 years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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

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

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

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

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

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

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

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

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

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

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

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

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Non-vested	51,005
Total	<u>262,285</u>

### Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS 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 Plan 3 employee contribution rates range from 5 percent to 15 percent based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapter 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll as of December 31, 2011, were as follows:

Members not participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.25% **	7.25% **	7.25% ***
Employee	6.00% ****	4.64% ****	*****

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

\*\* The employer rate for state elected officials is 10.89% for Plan 1 and 7.25% for Plans 2 and 3.

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

\*\*\*\*The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.

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



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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2011	\$ 26,768	\$ 299,621	\$ 68,912
2010	\$ 25,866	\$ 245,886	\$ 56,751
2009	\$ 35,068	\$ 320,408	\$ 68,994

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

### Plan Description

The Legislature established LEOFF in 1970. Membership in the system includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 20, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations.

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

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at 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 FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

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

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

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

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

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

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

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

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

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

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

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

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

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

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

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

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	9,647
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	782
Active Plan Members Vested	13,420
Active Plan Members Nonvested	3,656
Total	<u>27,505</u>

### Funding Policy

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

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2011, were as follows:

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

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

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

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

	LEOFF Plan 1	LEOFF Plan 2
2011	\$ 0	\$ 248,733
2010	\$ 0	\$ 236,588
2009	\$ 0	\$ 230,960

#### Other Retirement Systems - Volunteer Fire Fighters' Relief And Pension Fund

The Volunteer Fire Fighters' Relief and Pension Fund System is a cost-sharing multiple-employer retirement system which was created by the Legislature in 1945 under Chapter 41.24 RCW. It provides pension, disability and survivor benefits. Membership in the system requires service with a fire department of an electing municipality of Washington State except those covered by LEOFF. The system is funded through member contributions of \$30 per year; employer contributions of \$30 per year; 40 percent of the Fire Insurance Premium Tax; and earnings from the investment of moneys by the Washington State Investment Board. However, members may elect to withdraw their contributions upon termination. This pension fund is administered by the State of Washington Board for Volunteer Fire Fighters and Reserve Officers, and the only expense to the city is our contribution. The Actuarial Valuation is available on the Washington Office of State Actuary website. The City's VFT&P cost and the percentage of VFT&P cost contributed to the plan for 2011 and the two preceding years were as follows.

	Annual VFR&P Cost	Contribution as a % of VFR&P Cost
2011	\$ 300	\$ 100%
2010	\$ 360	\$ 100%
2009	\$ 360	\$ 100%

#### Local Governments Pension Trust Funds

The City of Moses Lake is also the administrator of a pension retirement system called Fireman's Pension Fund which is a closed, single-employer, defined benefit pension plan that was established in conformance with RCW Chapter 41.8. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries, these benefit provisions are established by the State Legislature. Membership is limited to firefighters employed prior to March 1, 1970, when the LEOFF retirement system was

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

Membership of the Firemen's Pension Fund December 31, 2011

Retirees currently receiving full retirement benefits through LEOFF	8
Retirees receiving benefits through both LEOFF and FPF	2
Beneficiaries receiving benefits through FPF. . . . .	3
Active plan members' . . . . .	0

Assets available in the pension plan are as follows. Current contributions to the plan are comprised on interest on investments and the state tax on fire insurance. Plan assets are allocated as a percentage of Medical Costs to total costs. Because all eligible fire fighters have retired, pension payments will only increase by Cost of Living Allowances (COLAs) from the Washington State Retirement system. COLAs are capped at 3% and will remain below projected increases in Medical Insurance Premiums.

Assets, medical service costs, and premiums from the Firemen's Pension Fund are as follows:

<b>Firemen's Pension Fund</b>					
<b>Year</b>	<b>Assets *</b> <b>EOY</b>	<b>Pension</b> <b>Payments</b>	<b>Medical</b> <b>Service</b> <b>Costs</b>	<b>Percent of</b> <b>Medical to</b> <b>Total</b>	<b>Assets</b> <b>Available for</b> <b>Medical Costs</b>
2005	149,281	16,174	108,147	86.99%	129,860
2006	167,381	16,896	115,242	87.21%	145,979
2007	203,205	18,726	105,497	84.93%	172,573
2008	208,588	20,492	117,528	85.15%	177,619
2009	193,245	20,800	127,809	86.00%	166,197
2010	555,041	22,255	143,111	86.54%	480,343
2011	471,756	22,013	142,472	86.62%	408,620

\* Assets do not include employee contributions to plan, which are considered a liability.

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 150 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the reinsured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate 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 machineries are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members deductible to \$500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

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.

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, 2011 were as follows:

Unemployment Compensation                      \$262,467

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

## NOTE 9 - LONG-TERM DEBT

The City of Moses Lake issues general obligation and revenue bonds to finance the purchase of land and the acquisition or construction of reservoirs, an aquatic center, water and sewer lines and upgrade of wastewater treatment plants. Bonded indebtedness has also been entered into in prior years to advance refund several general obligation and revenue bonds. General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources. The revenue bonds are being repaid by proprietary fund revenues.

General obligation bonds currently outstanding are as follows:

Name of Issuance	Purpose	Issuance Date	Maturity Date	Original Debt	Interest Rate	Amount Outstanding
1998 LTGO Bond	Governmental Activities - Refunding	01/06/1998	08/01/2009	\$ 1,539,725	4.0 - 4.8%	\$ 90,839
1998 LTGO Bond	Governmental - Internal Service	01/06/1998	08/01/2009	155,275	4.0 - 4.8%	9,161
2002 LTGO Bond	Governmental Activities - Refunding	09/10/2002	08/01/2012	2,315,694	1.5 - 3.95%	269,659
2002 LTGO Bond	Governmental - Internal Service	09/10/2002	08/01/2012	1,119,306	1.5 - 3.95%	130,341
2003 LTGO Bond	Governmental - Internal Service	12/30/2003	09/01/2023	2,725,000	1.2 - 4.6%	1,865,000
2006 LTGO Bond	Governmental Activities	06/05/2006	08/01/2026	5,083,333	3.65-4.25%	4,183,333
2006 LTGO Bond	Operations Complex	06/05/2006	08/01/2026	1,016,667	3.65-4.25%	836,667
2010 LTGO Bond	Civic Center	09/07/2010	12/01/2020	5,925,000	2.00-3.25%	5,395,000
Total				<u>\$ 19,880,000</u>		<u>\$ 12,780,000</u>

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

Year	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 1,378,333	\$ 410,976	\$ 41,667	\$ 34,591
2013	906,667	366,893	43,333	32,987
2014	925,000	342,368	45,000	31,297
2015	953,333	317,010	46,667	29,520
2016	981,667	289,027	48,333	27,653
2017-2021	4,735,000	933,370	275,000	106,653
2021-2026	2,063,333	247,273	336,667	44,165
Total	<u>\$ 11,943,333</u>	<u>\$ 2,906,917</u>	<u>\$ 836,667</u>	<u>\$ 306,866</u>

Revenue bonds currently outstanding are as follows:

Bond	Issuance Date	Maturity Date	Original Debt	Interest Rate	Balance
Revenue Bonds '04	10/13/2004	9/01/2024	\$ 7,015,000	2.50-5.00%	\$ 6,650,000
Revenue Bonds '06	08/23/2011	8/23/2021	4,905,000	2.24%	<u>4,905,000</u>
Total			<u>\$ 11,920,000</u>		<u>\$ 11,555,000</u>

Revenue bond debt service requirements to maturity are as follows:

Year	Principal	Interest	Total
2012	\$ 705,000	427,277	1,132,277
2013	735,000	413,123	1,148,123
2014	750,000	398,900	1,148,900
2015	775,000	378,825	1,153,825
2016	875,000	357,225	1,232,225
2017-2021	4,890,000	1,303,726	6,193,726
2022-2024	2,825,000	313,750	3,138,750
Total	<u>\$ 11,555,000</u>	<u>\$ 3,592,826</u>	<u>\$ 15,147,826</u>

Per Internal Revenue Service Code Section 148, rebate arbitrage are earnings on investments purchased from gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebate arbitrage must be paid to the federal government. The City of Moses Lake carefully monitors investments to restrict earnings to a yield less than the bond issue, and therefore limit any arbitrage liability. As of December 31, 2011 the City has no arbitrage rebate liability.

### Government Loans

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

Loan	Interest Rate	Amount
PWTF Well #14	\$ 3.00%	20,722
PWTF Reservoir #8	2.00%	305,267
PWTF WWTP-Design	.50%	322,804
PWTF WWTP-Construction	.50%	5,823,529
Total		<u>\$ 6,472,322</u>



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

Year	Principal	Interest	Total
2012	658,731	37,459	696,190
2013	638,009	32,502	670,511
2014	638,009	28,167	666,176
2015	638,008	23,833	661,841
2016	561,692	19,498	581,190
2017-2021	2,808,461	55,362	2,863,823
2022-2022	529,412	2,647	532,059
Total	<u>\$ 6,472,322</u>	<u>\$ 199,468</u>	<u>\$ 6,671,790</u>

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, 2011, restricted assets in proprietary funds contain \$1,435,960 in sinking funds and reserves as required by bond indentures.

## NOTE 10 - LEASES

### Capital Leases

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

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

The assets acquired through capital leases are as follows:

Net Capital Lease Asset	Governmental Activities	Business-Type Activities
Other Improvements	\$ -	\$ 23,288
Machinery & Equipment	3,518,068	207,030
Less Accumulated Depreciation	1,127,015	73,457
Total	<u>\$ 2,391,052</u>	<u>\$ 156,861</u>

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2011 were as follows:

	Governmental	Business-Type
2012	\$ 622,261	\$ 68,820
2013	454,566	42,844
2014	345,035	3,015
2015	137,872	-
2016	11,489	-
Total Minimum Lease Payments	1,571,223	114,679
Less: Interest	68,829	4,668
Present Value of Minimum Lease Payments	<u>\$ 1,502,394</u>	<u>\$ 110,011</u>

## NOTE 11 - CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2011, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Internal Service Funds
<b>Governmental activities</b>						
Bonds payable:						
General obligation bonds	\$ 13,273,332	\$ -	\$ 1,330,000	\$ 11,943,332	\$ 1,378,333	\$ 6,590,000
Less deferred amount						
Issuance premiums(discounts)	101,980	4,336	15,893	90,423	-	124,325
Total bonds	13,375,312	4,336	1,345,893	12,033,755	1,378,333	6,714,325
Capital leases	1,541,613	650,000	689,220	1,502,393	585,207	910,268
Claims and judgements	-	-	-	-	-	-
Compensated absences	1,620,287	102,983	14,522	1,708,748	7,158	64,424
OPEB	357,472	43,280	-	400,752	-	-
<b>Governmental liabilities</b>	<u>\$ 16,894,683</u>	<u>\$ 800,599</u>	<u>\$ 2,049,635</u>	<u>\$ 15,645,648</u>	<u>\$ 1,970,698</u>	<u>\$ 7,689,017</u>
<b>Business-type activities</b>						
Bonds payable:						
General Obligation Bonds	\$ 876,668	\$ -	\$ 40,000	\$ 836,668	\$ 41,667	
Revenue bonds	6,875,000	4,905,000	225,000	11,555,000	705,000	
Less deferred amounts						
Issuance premiums(discounts)	316,231	95,976	67,238	344,970	-	
Total bonds	8,067,899	5,000,976	332,238	12,736,638	746,667	
Capital leases	183,785	-	73,775	110,010	65,718	
Government loans	7,131,053	-	658,731	6,472,322	658,731	
Compensated absences	509,967	24,237	12,463	521,742	52,174	
<b>Business-Type liabilities</b>	<u>\$ 15,892,704</u>	<u>\$ 5,025,213</u>	<u>\$ 1,077,206</u>	<u>\$ 19,840,712</u>	<u>\$ 1,523,289</u>	

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the totals for governmental activities. At year end \$ 8,575,217 of internal service funds and compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

## NOTE 12 - CONTINGENCIES AND LITIGATIONS

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

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

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

As of December 31, 2011, significant suits were:

### Pending

1. RJL Construction, LLC v. Team Construction, City of Moses Lake, and Berkely Regional Insurance Co.: Civil suit filed in Grant County Superior Court for breach of contract and damages filed by subcontractor against contractor on City's Civic Center project. City is holding statutory retainage in the amount of \$371,768. A discovery schedule has been established but no trial date has been set. The City has filed an answer and will comply with any court direction as to the disbursement of the retainage.
2. Moses Lake v. Estes: Civil code enforcement appeal involving a constitutional challenge to the city's administrative code enforcement process filed in Grant County Superior Court. This matter is currently set for trial on March 21, 2013.
3. Sargent v. RSC Equipment Rental and Moses Lake: Suit for personal injury damages filed in Grant County Superior Court for injuries sustained while loading a non-self propelled personal lift. This matter was referred to the City's insurance carrier for defense and the City's exposure is limited to its \$25,000 deductible.
4. AT&T Mobility Claim for Refund of Tax Attributable to Internet Access Services: The city received a claim letter for refund of utility users tax in November, 2011. No lawsuit has been filed and the city will vigorously defend any lawsuit that may arise from this claim.

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

## NOTE 13 - INTERFUND BALANCES AND TRANSFERS

### Interfund Balances

Loans between funds are classified as interfund loans receivable or payable on the statement of net assets. The loans were for Operations Complex construction, Civic Center Construction, and operating expenses. Interfund balances at December 31, 2011 were as follows:

	PAYABLE FROM					TOTALS
	GENERAL FUND	BUILDING MAINTENANCE	EQUIPMENT RENTAL	STORMWATER FUND	AMBULANCE FUND	
PAY TO SANITATION	\$ 896,645	\$	\$ 336,412		\$ 361,782	\$ 1,594,839
WATER/SEWER		5,500,000		\$ 80,396	160,792	5,741,188
TOTALS	\$ 896,645	\$ 5,500,000	\$ 336,412	\$ 80,396	\$ 522,574	\$ 7,336,027

### Interfund Transfers

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

	TRANSFERS FROM					Totals
	GENERAL	STREETS	SPECIAL REVENUE	DEBT SERVICE		
TRANSFERS TO GENERAL	\$ x	\$ -	\$ 3,045	\$ 46,178		\$ 49,223
STREETS	1,200,000	x	-	-		1,200,000
SPECIAL REVENUE	603,480	-	x			603,480
DEBT SERVICE	338,000	152,300	267,500	x		757,800
CAPITAL PROJECTS	-	-	391,959	-		391,959
WATER SEWER	-	-	-	-		-
AMBULANCE	252,800	-	-	-		252,800
CENTRAL SERVICES	-	-	-	-		-
FIREMEN'S PENSION	73,500	-	-	-		73,500
Totals	\$ 2,467,780	\$ 152,300	\$ 662,505	\$ 46,178		\$ 3,328,762

## 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
CONDENSED STATEMENT OF NET ASSETS			
Assets:			
Current asset	\$ 9,307,933	\$ 3,934,105	\$ 13,242,038
Restricted assets	3,504,333	1,919,564	5,423,897
Capital assets	33,958,480	39,145,984	73,104,464
Other assets	50,893	50,893	101,786
TOTAL ASSETS	46,821,639	45,050,546	91,872,185
Liabilities:			
Current liabilities	391,410	199,402	590,812
Current Liabilities payable from restricted assets	532,646	1,145,787	1,678,433
Noncurrent liabilities	6,534,007	11,599,191	18,133,198
TOTAL LIABILITIES	7,458,062	12,944,381	20,402,443
Net Assets:			
Invested in capital assets, net of related debt	25,214,030	24,504,126	49,718,156
Restricted	711,942	711,942	1,423,884
Unrestricted	13,437,605	6,890,098	16,342,846
TOTAL NET ASSETS	\$ 39,363,577	\$ 32,106,165	\$ 71,469,742

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

Total operating Revenues	\$ 5,555,848	\$ 3,698,260	\$ 9,254,108
Depreciation, Amortization, Depletion	(956,171)	(1,074,351)	(2,030,522)
Total Operating Expense	(3,261,439)	(2,347,409)	(5,608,848)
Operating income	1,338,238	276,500	1,614,738
Nonoperating revenue (expenses):			
Interest income	13,625	13,263	26,888
Miscellaneous revenues/expense	2,603,252	1,713,256	4,316,507
Intergovernmental payments	(50,000)	-	(50,000)
Interest expense	(204,782)	(241,163)	(445,945)
Capital Contributions	488,144	234,241	722,385
Transfers in (out)	-	-	-
Change in net assets	4,140,570	1,951,600	6,092,170
Beginning net assets	35,223,007	30,154,565	65,377,572
Ending net assets	\$ 39,363,577	\$ 32,106,165	\$ 71,469,742

## CONDENSED STATEMENT OF CASH FLOWS

Net cash provided (used) by:			
Operating activities	\$ 2,613,613	\$ 1,711,432	\$ 4,325,045
Noncapital financing activities	1,623,571	809,746	2,433,317
Capital & related financing activities	(1,016,016)	(720,811)	(1,736,827)
Net increase (decrease)	3,221,168	1,800,366	5,021,534
Beginning cash & cash equivalents	5,764,552	573,329	6,337,881
Ending cash & cash equivalents	\$ 8,985,720	\$ 2,373,695	\$ 11,359,415

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

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

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

### Summary of Significant Accounting Policies

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

### Plan Description

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

### Funding Status and Funding Policy

As of December 2011 there are no active members, and currently 19 retired members. Health insurance premiums are paid monthly. Other medical services are paid bimonthly as billings are presented for reimbursement. The city reimburses 100 percent of the amount of validated claims for medical costs incurred by these individuals. The pension board performs an annual survey to determine the care to be covered. Employer contributions are financed on a pay-as-you-go basis. The city maintains a fund dedicated to providing resources for fire fighter benefits and police benefits are paid out of the general fund.

For 2011, the city paid medical insurance premiums of \$155,881 for pre-age 65, and \$85,828 for post-age 65. Other medical payments paid by the city are for all eligible medical services not paid for by the insurance.

The city's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and

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

	Police	Fire	Total
Annual required contribution	\$ 163,276	\$ 217,185	\$ 380,461
Interest on net OPEB obligation	7,507	10,206	17,713
Adjustment to annual required contribution	(18,144)	(24,667)	(42,812)
Annual OPEB cost (expense)	152,638	202,724	355,362
Contributions made	109,357	142,472	251,828
Increase in net OPEB obligation	43,281	60,252	103,533
Net OPEB obligation-Beginning of year	357,472	485,981	843,453
Net OPEB obligation-End of year	\$ 400,753	\$ 546,233	\$ 946,986

The city's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 and the two preceding fiscal years were as follows:

Police Fund Schedule of Employer Contributions				
Fiscal Year Ended	Annual Required Contributions	Annual OPEB Costs Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2009	161,937	111,942	69%	319,763
12/31/2010	148,204	110,495	75%	357,472
12/31/2011	152,638	109,357	72%	400,753

Firemans Pension Schedule of Employer Contributions				
Fiscal Year Ended	Annual Required Contributions	Annual OPEB Costs Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2009	218,446	131,423	60%	422,000
12/31/2010	207,092	143,111	69%	485,981
12/31/2011	202,724	142,472	70%	546,233

Funding Status and Funding Progress. As of December, 2011, the actuarial accrued liability for benefits was \$7,576,610 (total of both departments) which has a funded portion of \$471,756 from the Fireman Pension Fund.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the

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

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

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

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

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

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

**Inflation rate-** The expected long-term inflation assumption for 2011 of .6 percent was based on projected changes in the Consumer Price Index for Urban Wage earners and Clerical Workers (CPI-W) from the Office of the state Actuary for Washington ([osa.leg.wa.gov](http://osa.leg.wa.gov)).

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

Based on the historical and expected returns of the city's short-term investment portfolio, a discount rate of 2.1 percent was used. In addition, the actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. The funded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2011 is twenty-five years.



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

**Pension Funds**

Schedule of Funding Progress  
for the LEOFF 1 Retiree Health Plan

Police Fund

Actuarial Valuation Date	Value of Assets (a)	Actuarial Accrued Liability (AAL)- Unit Credit Cost (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2009	-	2,956,033	2,956,033	0%	0	0%
12/31/2010	-	3,047,854	3,047,854	0%	0	0%
12/31/2011	-	3,049,063	3,049,063	0%	0	0%

Fireman Fund

Actuarial Valuation Date	Value of Assets (a)	Actuarial Accrued Liability (AAL)- Unit Credit Cost (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2009	194,387	4,240,690	4,046,303	5%	0	0%
12/31/2010	529,343	4,742,904	4,213,561	11%	0	0%
12/31/2011	471,756	4,527,547	4,055,791	10%	0	0%

## CITY OF MOSES LAKE

### Required Supplementary Information

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

##### Streets

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

Condition rating	2011-2009		2008-2006		2005-2003	
	Feet	%	Feet	%	Feet	%
VERY POOR	16,247	2.31%	24,932	4.20%	8,090	1.49%
POOR	3,980	0.57%	30,790	5.19%	20,465	3.78%
FAIR	31,465	4.48%	62,906	10.60%	79,300	14.64%
GOOD	109,243	15.54%	154,468	26.03%	133,996	24.73%
VERY GOOD	542,054	77.11%	320,411	53.99%	299,955	55.36%
TOTAL	702,989	100.00%	593,507	100.00%	541,806	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	2011-2009		2008-2006		2005-2003	
	Feet	%	Feet	%	Feet	%
PCR 0 to 39	20,227	2.88%	55,722	9.39%	28,555	5.27%
PCR 40 to 100	682,762	97.12%	537,785	90.61%	513,251	94.73%
Total	702,989	100.00%	593,507	100.0%	541,806	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. The majority of the remaining streets under the PCR of 40 is a section of the city that has no sewer services at this time. Once funding is available to extend utilities to the particular area it is the city's plan to construct paved streets and maintain them at a level consistent with the remainder of the city.

Below is information on budgeted and actual expenditures incurred to maintain and preserve the street system at or above the minimum acceptable condition level from 2004 to 2011.

	Amounts in Thousands							
	2011	2010	2009	2008	2007	2006	2005	2004
Budgeted	1,210	550	700	1,400	1,295	975	1,376	438
Expended	775	859	778	836	655	291	1,096	194

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

### Bridge

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

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

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

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

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

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

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

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

## Storm Water

The City established a storm water fund in 2010, and in 2011 the city transferred assets worth \$4,197,819 held by the Street Department to that fund. Condition assessments will be made every three years starting in 2011. One third of the system was assessed in 2011 so by 2013 a full assessment will have been completed. The city has been working the last couple of years on locating and documenting all storm water infrastructure, and should have a comprehensive reporting system up and running by end of 2012.

The rating system is a numerical index from zero to 100 (0 - 100) that represents the storm water's functional condition based on the quantity, severity, and type of problem, such as sedimentation, structure cracks, etc. The measurement scale and basis for condition measurement is as follows:

### **Rating**

**70-100** Good Condition-serves the intended function and scores well in all areas

**41-69** Fair Condition-serves the intended function, but scores less well and has other issues.

**0-40** Poor condition- may or may not fulfill its design function, has other serious issues, and requires maintenance or rebuild.

It is the policy of the city engineering department to maintain 70 percent of the storm water structures and pipe at a condition of 40 or higher. Out of approximately 3000 structures 880 were inspected in 2011 and out of that amount 800 were considered to be in fair to good condition. That is 29% of structures inspected and 10% of those structures were in poor to fair condition with the remaining 90% in fair to good condition.

Budget amounts are the anticipated amount needed to maintain and preserve the storm water system up to the required condition level. In 2011 there was \$388,000 budgeted and \$394,048 expended for maintenance and preservation of the storm water system. Also there was \$385,000 budgeted for a decant facility of which \$285,291 was actually spent.



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

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

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