

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

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

Audit Period  
**January 1, 2012 through December 31, 2012**

**Report No. 1010223**

Issue Date  
**August 12, 2013**



WASHINGTON  
**TROY KELLEY**  
STATE AUDITOR



**Washington State Auditor  
Troy Kelley**

August 12, 2013

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,

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style.

**TROY KELLEY**  
STATE AUDITOR

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Grant County  
January 1, 2012 through December 31, 2012**

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**Independent Auditor's Report on Internal  
Control over Financial Reporting and on  
Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in  
Accordance with *Government Auditing  
Standards***

City of Moses Lake  
Grant County  
January 1, 2012 through December 31, 2012

City Council  
City of Moses Lake  
Moses Lake, Washington

We have audited, 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, 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 17, 2013. During the year ended December 31, 2012, the City implemented Governmental Accounting Standards Board Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In addition, we noted certain matters that we will report to the management of the City in a separate letter dated June 21, 2013.

### **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

### **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. 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.



**TROY KELLEY**  
STATE AUDITOR

June 17, 2013

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

**City of Moses Lake  
Grant County  
January 1, 2012 through December 31, 2012**

City Council  
City of Moses Lake  
Moses Lake, Washington

## ***REPORT ON THE FINANCIAL STATEMENTS***

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 6.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Moses Lake, as of December 31, 2012, 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 accordance with accounting principles generally accepted in the United States of America.

### ***Matters of Emphasis***

As discussed in Note 1 to the financial statements, in 2012, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 18, pension trust fund information on page 70 and infrastructure modified approach information on pages 71 through 73 and 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 our 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.

### ***OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2013 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 internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in dark ink and is positioned above the printed name and title.

**TROY KELLEY**  
STATE AUDITOR

June 17, 2013

# **Financial Section**

## **City of Moses Lake Grant County January 1, 2012 through December 31, 2012**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Moses Lake, we offer readers of the City of Moses Lake's financial statement this narrative overview and analysis of the financial activities of the City of Moses Lake for the fiscal year ended December 31, 2012. 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 \$142,955 (net position). Of this amount, \$15,334 (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 \$3,697.
- As of the close of the current fiscal year, the City of Moses Lake's governmental funds reported combined ending fund balances of \$5,505, an increase of \$1,657 from the prior year.
- At the end of the current fiscal year, unreserved fund balance available to spend at the City's discretion for the general fund was \$2,244, or 12% of total general fund expenditures.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is 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 position** presents information on all of the City of Moses Lake's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position 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.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Statement of Net Position

As noted earlier, net position 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 \$142,955 at December 31, 2012.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$4,614	\$3,694	\$19,060	\$21,785	\$23,674	\$25,479
Capital assets	72,880	72,658	80,148	78,351	153,029	151,009
Total assets	<u>77,495</u>	<u>76,352</u>	<u>99,208</u>	<u>100,136</u>	<u>176,703</u>	<u>176,488</u>
Long-term liabilities	12,949	13,675	16,868	18,317	29,817	31,992
Other liabilities	2,305	2,904	2,241	2,628	4,546	5,532
Total liabilities	<u>15,253</u>	<u>16,579</u>	<u>19,110</u>	<u>20,945</u>	<u>34,363</u>	<u>37,524</u>
<b>Net assets:</b>						
Net investment in capital assets	60,757	59,286	62,441	54,936	123,198	114,222
Restricted	244		4,188	5,409	4,432	5,409
Unrestricted	1,240	487	13,470	18,846	14,710	19,333
Total net position	<u>\$62,241</u>	<u>\$59,773</u>	<u>\$80,099</u>	<u>\$79,191</u>	<u>\$142,340</u>	<u>\$138,964</u>

The largest portion of the City of Moses Lake's net position (86 %) 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 position (3 %) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (11 %) 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 position, 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 slightly and is expected to continue improving.

### Statement of Changes in Net Position

The changes in net position table indicates the increases or decreases in net position of the city resulting from its operations. The City's total net position increased by \$3,376 in 2012. The increase after transfers was split among governmental (\$2,467) and business-type activities (\$908).

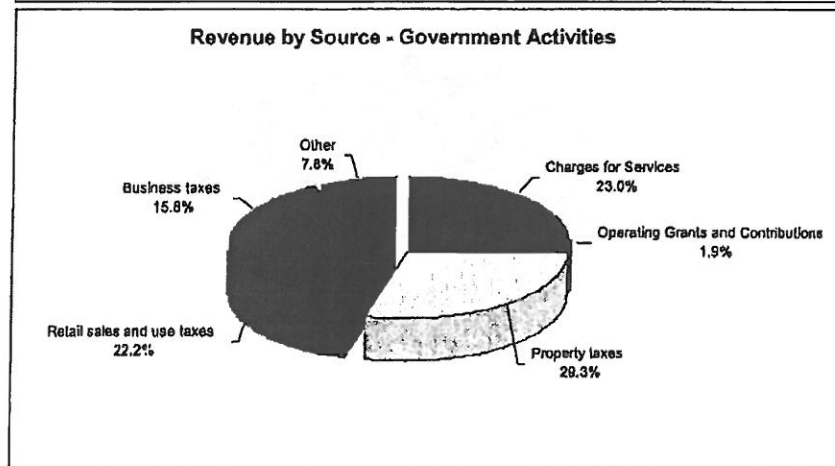
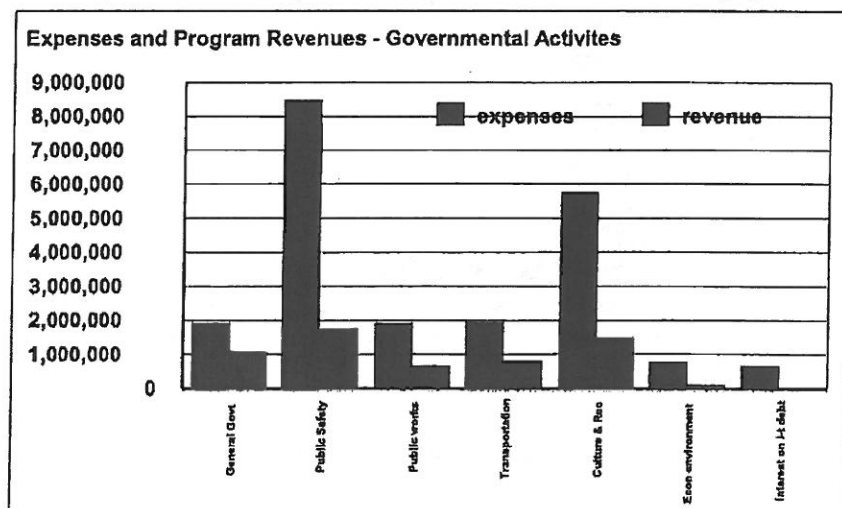
The following is a summarized version of the City's changes in net position. The table shows the revenues, expenses, and related changes in net position in table form for the governmental activities autonomous from the business-type activities for 2012.

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues:</b>						
Program revenue:						
Charges for services	\$5,575	\$6,318	\$15,459	\$15,473	\$21,034	\$21,791
Operating grants and contributions	449	293	-	-	449	293
Capital grants and contributions	-	1,452	555	5,101	555	6,553
General revenue						
Property taxes	7,089	8,491	-	-	7,089	8,491
Sales taxes	5,368	5,540	-	-	5,368	5,540
business taxes	3,820	3,591	-	-	3,820	3,591
Other taxes	-	-	-	-	-	-
Other	241	288	33	3743	274	4,031
Total revenues	22,542	25,973	16,047	24,317	38,589	50,290
<b>Expenses:</b>						
General government	2,025	5,178	-	-	2,025	5,178
Public safety	8,523	8,209	-	-	8,523	8,209
Public works	1,935	1,849	-	-	1,935	1,849
Transportation	1,981	2,758	-	-	1,981	2,758
Culture & recreation	5,778	5,971	-	-	5,778	5,971
Economic environment	804	761	-	-	804	761
Interest on long-term debt	676	671	-	-	676	671
Water/sewer utility	-	-	7,401	7,599	7,401	7,599
Sanitation	-	-	3,025	2,962	3,025	2,962
Ambulance	-	-	2,510	2,409	2,510	2,409
Airport	-	-	30	29	30	29
Storm Water	-	-	526	478	526	478
Total expenses	21,722	25,397	13,492	13,477	35,214	38,874
Increase in net position before transfers	820	576	2,555	10,840	3,375	11,416
Transfers	1,647	(253)	(1,647)	253	-	-
Change in net position	2,467	323	908	11,093	3,375	11,416
Net position 01/01	59,773	59,450	79,191	68,100	138,964	127,550
Net position 12/31	<u>\$62,240</u>	<u>\$59,773</u>	<u>\$80,099</u>	<u>\$79,193</u>	<u>\$142,339</u>	<u>\$138,966</u>

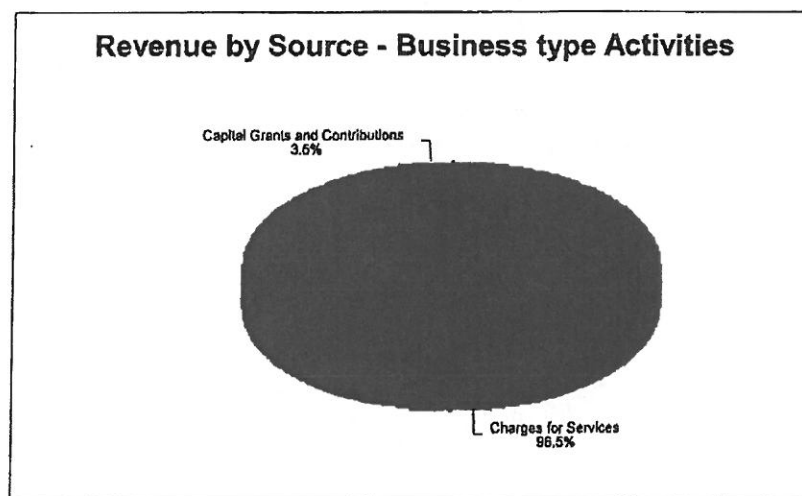
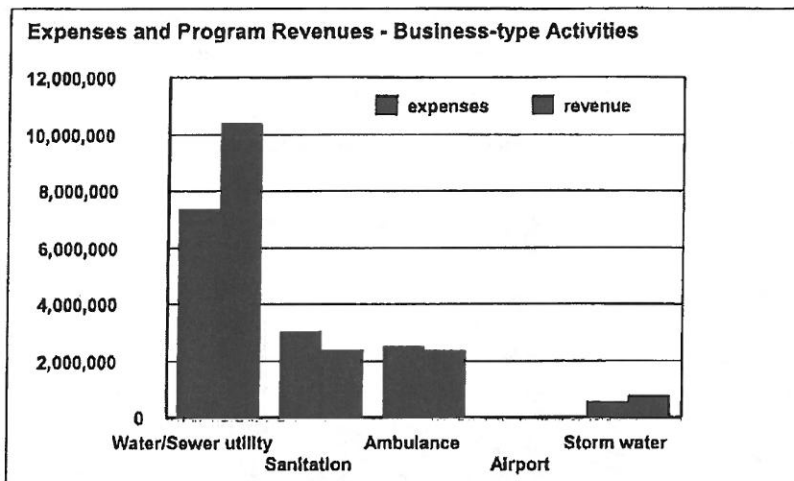
**Governmental activities.** Governmental activities increased the City of Moses Lake's net position by \$2,467. As shown in the Statement of Activities, \$5,575 of the total cost was paid for by either those directly benefitting from the programs or by governments and organizations that subsidized certain programs through grants and contributions. Key elements of this increase are as follows:

- The decrease (\$1,402) in property taxes was due largely to a dispute over tax assessments of a manufacturing facility that decreased the city tax roll by (\$3,409).
- Sales tax revenue decreased (\$172) for the year as a result of poor economic conditions.
- The decrease in taxes was offset by a decrease in general government expenditures (\$3,153) and the decrease in transportation expenditures (\$777).
- The increase in business taxes (\$229) was due to new business' opening in the area.
- The decrease in capital grants and contributions (\$1,452) was attributable to 2011 increase of funds received for the construction of the City's Civic Center.
- The increase in public safety expense (\$314) is attributable to the addition of new police officers, increase in wages and medical benefits of fire and police personnel.
- An increase in transfers (\$1,900) was the result of a state statute allowing the current expense fund to collect, in lieu of taxes, a rate based on the cost of the utility system.



**Business-type activities.** Total net assets of business-type activities increased by \$908 for the year. Other than ambulance when revenues decrease for a activity so did the related expenses and when revenues increased so did expenses. Key elements of the fluctuations are as follows.

- Slight decrease (\$14) in charges for services is attributed mostly to the annual rate increase in water/sewer rates for 2012 mandated by municipal code matching the increase in the Consumer Price Index. The decrease in utilities can be linked to ambulance bad debt writeoff.
- Decrease (\$198) in water/sewer utilities expenses.
- The increase (\$63) in sanitation expense is attributable to recycling and yard waste containers supplied to customers and increases in commercial usage.
- Increase (\$48) in storm water expenses was due to an increase in labor costs.
- An (\$101) increase in ambulance expenses is largely due to allocated labor costs.
- The airport is a non self-supporting fund and has minimal revenue and expenses.



## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

**Governmental Funds.** The focus of the City of Moses Lake's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Moses Lake's financing requirements.

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 balance of \$5,505, an increase of \$1,657 in comparison with the prior year. It is partly made up of unassigned fund balance (\$2,243), which is available for spending at the government's discretion. The remainder of fund balance is restricted to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period (\$1,505), for debt service payments (\$175) and a variety of other restricted purposes (\$1,579).

The General Fund is the chief operating fund of the City of Moses Lake. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,243 while the total fund balance was at \$3,634. 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 total balance of \$314.

The fund balance of the City of Moses Lake's General Fund increased by \$1,706 during the current fiscal year and the Street Fund increased \$103. Key factors in the changes are as follows:

- The street fund revenue from vehicle excise tax decreased (\$35) from the state, and permits from construction were up (\$19) while project expenditures were up (\$17) caused by a slow economy and higher construction costs.
- There was a net decrease in property taxes (\$1,402), and a decline of sales tax (\$172). The only taxes to increase was business tax (\$229) and excise tax (\$21).
- There was a transfer in lieu of taxes (\$1,900) from the water sewer fund per RCW 35.23.535 to the general fund which helped offset the shortfall.
- An increase in expenditures occurred in public safety (\$198) and an increase in public works (\$54). Decreases in expenditures occurred in recreation (\$165), transportation (\$794), and general government (\$129).
- There was a little growth in the construction industry and as a result an increase in building fees and permits (\$128).
- Banking rates remain at a 70 year low generating reduced City interest earnings (\$45).

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

Unrestricted net assets of the Water and Sewer Utility at the end of the year amounted to \$10,939, and those for the Sanitation Utility amounted to \$1,632. The total of the two funds accounted for 92% of the total net assets for all enterprise funds. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Moses Lake's business-type activities.

## **BUDGETARY HIGHLIGHTS**

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

The final revenue budget for the General Fund was \$1,800 lower than the original budget and expenditures decreased by \$471. The street fund final revenue budget was the same as the original, and the expenditure budget was the same as the original. This was the result of budget amendments approved by City Council during the year. The major budget changes are listed below.

- The \$1,800 decrease in tax revenue in the General Fund was from decreases in property taxes due to litigation over the REC assessment. Expenditure decreases were from the general government (\$214) and culture and recreation (\$247).

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

General fund revenues came in over final amended budget by \$453 (2%) and expenditures under by \$ 538 (3%) respectively. Street fund had the same results with revenue of \$24 (4%) over and expenditures of \$40 (2%) under budget. Factors contributing to this outcome were:

- The street fund received \$14 more vehicle excise tax revenue from the state than was expected while project expenditures were lower by \$39 because of a cut in projects.
- General fund taxes were \$397 higher due to the higher than anticipated business taxes but also there were decreases in charges for services (\$117) and fines and forfeits (\$15)
- There was a decrease in general government expenditures (\$90), utilities expenditures (\$206), economic environment (\$152), and culture and recreation (\$138). These funds cut back on their spending in anticipation of a shortfall in property taxes.
- Public safety expenditures had an increase in costs (\$15).

## **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 1.32% (a .31% increase for governmental activities and a 2.24% increase for business-type activities).

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

- New equipment was purchased (\$787), which included a paint striper truck (\$255).
- Construction in progress increased significantly due to building the City Civic Center (\$11.013).
- A number of street improvement projects (\$452) were completed during the year.

rating paved streets. The bridge has no load limits which substantiates its superior rating. Projected costs to maintain the bridge are included in the budgeted cost of the streets.

The City maintains an inventory of these infrastructure assets. With triennial assessments establishing the condition level of the assets, the City makes annual estimates of the cost to maintain its streets which are also reported in the City's annual Capital Improvement Program. For 2012 the City projected \$1,260 for road maintenance. The actual amount expended was \$265.

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

**Long-term debt.** At the end of the fiscal year, the City of Moses Lake had total bonded debt outstanding of \$22,250. Of this amount, \$11,400 comprises debt backed by the full faith and credit of the government and \$10,850 represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

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

	Governmental Activities	Business-type Activities	Total
General obligation debt	\$ 10,605,000	\$ 795,000	\$ 11,400,000
Revenue debt	-	10,850,000	10,850,000
	<u>\$ 10,605,000</u>	<u>\$11,645,000</u>	<u>\$ 22,250,000</u>

The City of Moses Lake's total bonded debt decreased by 2,085 due to payments and no new debt being issued. The 2003 bond was refunded to take advantage of lower interest rates. The refunding will save the City over \$165,000 over the next ten years. Currently, the city does not anticipate issuing any new debt in the foreseeable future.

The City of Moses Lake maintains favorable rating from Standard & Poor's by carrying Bond insurance. The Revenue Bonds are rated "AA-" and the General Obligation 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 2012 was \$2,163,776 and the remaining debt capacity is as follows:

	(Actual amounts)
General	\$ 40,129,431
Open Space/Park Facilities	54,094,408
Utilities	<u>54,904,408</u>
Total	<u>\$148,318,247</u>

Additional information on the City's long-term debt can be found in Note 9 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 through 2012, and will remain restrained through 2013. The restricted growth in the local economy is 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 2013 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 2013 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 2012. 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. The City anticipates continued additional building activity in 2013. 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.

In 2012 the property owner with the largest assessment within the city had filed an appeal to the State Board of Tax Appeals for their 2010 assessment for the 2011 taxes and the 2011 assessment of their 2012 tax. A settlement agreement was reached in 2013 between Grant County and the property owner resulting in the property owner withdrawing their appeal. With the settlement the property owner agreed to the 2011 assessment, therefore no refund is due or additional tax owed. For 2012 the assessment was reduced by \$261,115. The corresponding refund for taxes already paid will be applied to the 2013 tax payment. The City's share will amount to \$888. In addition, the 2013 assessment is in dispute and will go before the State Board of Tax Appeals. The County is seeking a \$1.2 billion value and the property owner \$450 million. The County feels strongly that the board will find more favorably in the County's assessed value than that of the property owner. The City is not anticipating a decrease in services and will defer construction projects until such time as the dispute is resolved.

During the current fiscal year, the unreserved fund balance in the General Fund increased. It is expected that the fund balances will be retained through 2013 and further increased. Except for a small allowed property tax increase, no other tax increases were included in preparing the 2013 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 2013 fiscal year.

The water and sewer utility rates were increased slightly, by the rate of inflation, for the 2013 budget year. These rate increases in 2013 assist in providing service at current levels.

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

#### **Requests for Information**

This financial report is designed to provide a general overview of the City of Moses Lake's finances for all those with an interest in the government's 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.

**CITY OF MOSES LAKE**  
**Statement of Net Position**  
**December 31, 2012**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 9,443,379	\$ 5,550,887	\$ 14,994,266
Receivables (net of allowances for uncollectibles)	1,403,417	2,085,577	3,488,994
Internal balances	(6,636,950)	6,636,950	-
Inventories and prepaid items	279,272	734,170	1,013,442
Deferred charges	117,999	101,313	219,312
Restricted assets:			
Cash	-	3,947,450	3,947,450
Interest and other receivables	7,183	3,443	10,626
Capital assets (net of accumulated depreciation):			
Land and land improvements	5,377,082	1,157,773	6,534,855
Buildings and other improvements	14,541,856	27,296,261	41,838,117
Machinery and equipment	4,191,994	2,034,612	6,226,606
Infrastructure	37,409,676	49,357,347	86,767,023
Construction in progress	11,359,800	302,445	11,662,244
Total assets	<u>77,494,708</u>	<u>99,208,227</u>	<u>176,702,935</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	687,666	557,134	1,244,800
Accrued interest	85,244	169,214	254,459
Unearned revenues	769	4,486	5,256
Noncurrent liabilities:			
Due within one year	1,531,020	1,510,502	3,041,522
Due in more than one year	12,948,728	16,868,316	29,817,045
Total liabilities	<u>15,253,428</u>	<u>19,109,653</u>	<u>34,363,081</u>
<b>NET POSITION</b>			
Net investment in capital assets	60,548,550	66,254,242	126,802,793
Restricted for:			
Debt service	175,955	1,409,250	1,585,205
Capital projects	-	2,508,114	2,508,114
Other purposes	329,544	-	329,544
Unrestricted	1,187,230	9,926,968	11,114,198
Total net position	<u>\$ 62,241,280</u>	<u>\$ 80,098,573</u>	<u>\$ 142,339,853</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, 2012**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
<b>Primary Government:</b>						
Government activities:						
General government	\$ 2,025,131	\$ 1,121,967	\$ -	\$ -	\$ (903,165)	\$ -
Public safety	8,523,429	1,556,924	206,679	-	(6,759,826)	-
Public works	1,935,245	675,827	-	-	(1,259,418)	-
Transportation	1,981,454	675,203	179,697	-	(1,126,555)	-
Culture and recreation	5,777,849	1,423,732	62,691	-	(4,291,426)	-
Economic Environment	803,867	121,754	-	-	(682,113)	-
Interest on long-term debt	675,736	-	-	-	(675,736)	-
Total governmental activities	21,722,712	5,575,407	449,067	-	(15,698,237)	-
<b>Business-type activities:</b>						
Water/Sewer utility	7,401,282	9,894,017	-	495,725	-	2,988,460
Sanitation	3,025,020	2,401,838	-	-	(623,183)	(623,183)
Ambulance	2,509,558	2,390,364	-	-	(119,194)	(119,194)
Airport	30,063	32,932	-	-	-	2,869
Storm Water	525,931	739,803	-	59,098	-	272,970
Total business-type activities	13,491,855	15,458,954	-	554,823	2,521,923	2,521,923
Total primary government	\$ 35,214,567	\$ 21,034,362	\$ 449,067	\$ 554,823	(15,698,237)	(13,176,314)
General revenues:						
Property taxes					7,089,271	7,089,271
Retail sales and use taxes					-	-
Business taxes					5,368,342	5,368,342
Investment earnings					3,820,464	3,820,464
Miscellaneous					239,762	33,173
Transfers, internal activities					1,158	-
Total general revenues and transfers					1,647,200	(1,647,200)
Changes in net position					18,166,197	(1,614,027)
Net position - beginning					2,467,960	907,896
Net position - ending					59,773,320	79,190,677
					\$ 62,241,280	\$ 80,098,573
						\$ 142,339,853

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

# CITY OF MOSES LAKE

## Balance Sheet

### Governmental Funds

December 31, 2012

	General	Street	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,699,211	\$ 305,802	\$ 1,508,708	\$ 6,513,721
Receivables (net of allowance for uncollectibles):				
Taxes	439,664	-	-	439,664
Customer accounts	59,330	-	102,456	161,786
Unbilled services	19,149	-	11,475	30,624
Other receivables	739,437	-	242	739,679
Interfund loans receivable	20,577	185	-	20,762
Due from other governments	2,380	-	23,509	25,889
Prepays	126,925	68,176	-	195,102
Total assets	<u>6,106,673</u>	<u>374,164</u>	<u>1,646,390</u>	<u>8,127,226</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	87,147	39,546	3,798	130,491
Salaries and benefits payable	426,222	15,315	-	441,537
Due to other funds	3,131	4,469	1,907	9,507
Revenues collected in advance	769	-	-	769
Interfund loans payable	765,649	-	-	765,649
Deferred revenue	1,189,354	-	84,756	1,274,110
Total liabilities	<u>2,472,273</u>	<u>59,330</u>	<u>90,460</u>	<u>2,622,063</u>
Fund balances:				
Nonspendable:				
Inventories and noncurrent receivables	1,384,505	68,176	52,926	1,505,608
Restricted for:				
Public safety programs	6,238	-	9,061	15,299
Tourism	-	-	228,899	228,899
Debt service	-	-	175,955	175,955
Culture and recreation	-	-	85,346	85,346
Committed for:				
Culture and recreation	-	-	302,363	302,363
Transportation	-	-	501,380	501,380
Assigned to transportation	-	246,658	200,000	446,658
Unassigned	2,243,656	-	-	2,243,656
Total fund balances	<u>3,634,399</u>	<u>314,834</u>	<u>1,555,930</u>	<u>5,505,163</u>
Total liabilities and fund balances	<u>\$ 6,106,673</u>	<u>\$ 374,164</u>	<u>\$ 1,646,390</u>	<u>\$ 8,127,226</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 Position**  
**December 31, 2012**

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Total Governmental Fund Balances	\$ 5,505,163
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Amounts reported for governmental activities in the government-wide statement of net position 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).	54,383,623
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Other long-term assets are not available to be collected in current period revenues and therefore are deferred in the funds.	1,274,110
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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 position.

Internal Service funds' net position	7,550,250	
Internal payable-charges under cost to business-type activities - prior years	70,636	
Internal receivable-charges over cost to business-type activities - current years	<u>(453,124)</u>	
Net adjustment to arrive at net position - governmental activities.		7,167,762

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 position (exclusive of internal service funds' debt).

Bonds payable	(3,975,000)	
Issuance discount	31,564	
Capital leases payable	(27,795)	
Accrued interest payable	(68,685)	
Compensated absences	(1,663,082)	
Other postemployment benefits	<u>(417,131)</u>	
Net adjustment to arrive at net position - governmental activities		(6,120,130)

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 position.	23,569
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Interest receivables of governmental activities not reported in the funds.	<u>7,183</u>
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Net position of governmental activities	<u><u>\$ 62,241,280</u></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****Governmental Funds****For the Year Ended December 31, 2012**

	<b>General</b>	<b>Streets</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
Taxes	\$ 15,183,262	\$ 894	\$ 1,138,225	\$ 16,322,381
Licenses and permits	566,926	32,223	-	599,149
Intergovernmental revenues	504,671	612,432	346,323	1,463,427
Charges for services	2,942,954	25,799	420	2,969,173
Fines and forfeits	444,140	-	-	444,140
Interest earnings	217,981	-	4,142	222,123
Rents and royalties	163,524	-	-	163,524
Contributions/donations	-	-	72,889	72,889
Assessments	-	-	17,101	17,101
Miscellaneous	60,743	-	20,753	81,496
Total revenues	<u>20,084,201</u>	<u>671,349</u>	<u>1,599,852</u>	<u>22,355,402</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,949,913	-	-	1,949,913
Public safety	8,472,353	-	182,645	8,654,999
Public works	1,990,548	-	-	1,990,548
Transportation	-	1,698,664	317,786	2,016,451
Economic environment	819,327	-	-	819,327
Culture and recreation	5,200,342	-	239,299	5,439,642
Capital outlay	75,764	17,188	541,319	634,271
Debt service:				
Principal	-	-	579,446	579,446
Interest and debt issue costs	47,074	-	188,764	235,838
Total expenditures	<u>18,555,322</u>	<u>1,715,853</u>	<u>2,049,261</u>	<u>22,320,435</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,528,879</u>	<u>(1,044,504)</u>	<u>(449,409)</u>	<u>34,967</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	2,838,725	1,300,000	852,813	4,991,539
Transfers (out)	(2,709,813)	(152,300)	(555,725)	(3,417,839)
Proceeds from sale of capital assets	22,010	-	-	22,010
Capital lease	26,754	-	-	26,754
Total other financing sources (uses)	<u>177,675</u>	<u>1,147,700</u>	<u>297,088</u>	<u>1,622,464</u>
Net change in fund balances	<u>1,706,554</u>	<u>103,196</u>	<u>(152,320)</u>	<u>1,657,430</u>
Fund balances-beginning	<u>1,927,845</u>	<u>211,638</u>	<u>1,708,250</u>	<u>3,847,733</u>
Fund balances-ending	<u>\$ 3,634,399</u>	<u>\$ 314,834</u>	<u>\$ 1,555,930</u>	<u>\$ 5,505,163</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, 2012

Net changes in fund balances - total governmental funds: \$ 1,657,430

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	634,271	
Depreciation expense	(742,086)	
Net increase in net assets - governmental activities		(107,813)

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

115,469

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

Contributed assets	(0)	
Gain(loss) on sale/disposals of assets	(124,264)	
Net increase in net position - governmental activities		(124,264)

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 position. 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	(26,754)	
Debt principal payments	579,446	
Net increase in net position - governmental activities		552,692

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	(16,379)	
Accrued debt interest	9,369	
Compensated absences	(25,917)	
Amortization of deferred bond costs	(4,084)	
Net decrease in net position - governmental activities		(37,011)

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

(41)

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 position	864,822	
Loss (gain) from charges to business-type activities	(453,124)	
Net increase in net position - governmental activities		411,498

Change in net position of governmental activities \$ 2,467,960

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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 16,585,500	\$ 14,785,500	\$ 15,183,262	\$ 397,762
Licenses and permits	545,300	545,300	566,926	21,626
Intergovernmental revenues	412,600	412,600	504,671	92,071
Charges for services	3,060,800	3,060,800	2,942,954	(117,846)
Fines and forfeits	460,000	460,000	444,140	(15,860)
Interest earnings	216,500	216,500	217,981	1,481
Rents and royalties	149,000	149,000	163,524	14,524
Miscellaneous	1,000	1,000	60,743	59,743
Total revenues	<u>21,430,700</u>	<u>19,630,700</u>	<u>20,084,201</u>	<u>453,501</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,233,000	2,018,300	1,949,913	68,387
Public safety	8,456,600	8,456,600	8,472,353	(15,753)
Public works	2,197,200	2,197,200	1,990,548	206,652
Economic environment	971,500	971,500	819,327	152,173
Culture and recreation	5,623,200	5,366,100	5,200,342	165,758
Capital outlay	37,000	37,000	75,764	(38,764)
Debt service:				
Interest and debt issue costs	47,000	47,000	47,074	(74)
Total expenditures	<u>19,565,500</u>	<u>19,093,700</u>	<u>18,555,322</u>	<u>538,378</u>
Excess of revenues over expenditures	<u>1,865,200</u>	<u>537,000</u>	<u>1,528,879</u>	<u>991,879</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	100,000	2,838,500	2,838,725	225
Transfers (out)	(2,605,800)	(2,786,800)	(2,709,813)	76,987
Sales of capital assets	-	-	22,010	22,010
Proceeds from capital lease	27,000	27,000	26,754	(246)
Total other financing sources (uses)	<u>(2,478,800)</u>	<u>78,700</u>	<u>177,675</u>	<u>98,975</u>
Net change in fund balances	<u>(613,600)</u>	<u>615,700</u>	<u>1,706,554</u>	<u>1,090,854</u>
Fund balances-beginning	<u>1,489,000</u>	<u>2,453,000</u>	<u>1,927,845</u>	<u>(525,155)</u>
Fund balances-ending	<u>\$ 875,400</u>	<u>\$ 3,068,700</u>	<u>\$ 3,634,399</u>	<u>\$ 566,699</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, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ 894	\$ 894
Licenses and permits	18,000	18,000	32,223	14,223
Intergovernmental revenues	620,000	620,000	612,432	(7,568)
Charges for services	8,600	8,600	25,799	17,199
Total revenues	646,600	646,600	671,349	24,749
<b>EXPENDITURES</b>				
Current:				
Transportation	1,738,600	1,738,600	1,698,664	39,936
Capital outlay	18,000	18,000	17,188	812
Total expenditures	1,756,600	1,756,600	1,715,853	40,747
Deficiency of revenues under expenditures	(1,110,000)	(1,110,000)	(1,044,504)	65,496
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,300,000	1,300,000	1,300,000	-
Transfers (out)	(152,300)	(152,300)	(152,300)	-
Total other financing sources (uses)	1,147,700	1,147,700	1,147,700	-
Net change in fund balances	37,700	37,700	103,196	65,496
Fund balances-beginning	27,700	213,700	211,638	(2,062)
Fund balances-ending	\$ 65,400	\$ 251,400	\$ 314,834	\$ 63,434

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

**CITY OF MOSES LAKE**  
**Statement of Net Position**  
**Proprietary Funds**  
**December 31, 2012**

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	Business-type Activities-Enterprise Funds						Governmental
	Water/ Sewer	Sanitation	Ambulance	Airport	Storm Water	Totals	Activities Internal Service Funds
<b>ASSETS</b>							
<b>Current assets:</b>							
Cash and cash equivalents	\$ 4,308,199	\$ 438,746	\$ 305,012	\$ 70,547	\$ 428,384	\$ 5,550,887	\$ 2,929,657
Receivables (net of allowance for uncollectibles)	1,015,679	304,449	625,500	29,553	98,854	2,074,036	5,775
Interfund balances receivable	-	-	3,131	-	1,848	4,980	-
Interfund loans receivable	5,981,788	1,038,331	-	-	-	7,020,119	-
Intergovernmental receivable	-	-	-	-	11,541	11,541	-
Inventories and prepaid expenses	589,598	110,762	16,242	-	7,568	734,170	84,170
Total current assets	11,905,263	1,892,287	949,886	100,100	548,196	15,395,732	3,019,603
<b>Noncurrent assets:</b>							
<b>Restricted assets:</b>							
<b>Revenue bond reserves/debt service:</b>							
Cash and cash equivalents	1,439,336	-	-	-	-	1,439,336	-
Interest receivable	3,443	-	-	-	-	3,443	-
<b>Construction in progress:</b>							
Cash and cash equivalents	2,508,114	-	-	-	-	2,508,114	-
Total restricted assets	3,950,892	-	-	-	-	3,950,892	-
<b>Capital assets, net of accumulated depreciation:</b>							
Land and land rights	836,006	-	-	460	36,180	872,646	608,951
Buildings	26,975,747	-	-	35,223	285,291	27,296,261	2,939,042
Infrastructure	44,559,323	-	-	73,896	4,724,128	49,357,347	-
Machinery and equipment	1,910,191	-	96,789	-	27,832	2,034,812	3,787,392
Construction in progress	270,432	-	-	-	32,013	302,445	11,161,399
Intangible assets	285,127	-	-	-	-	285,127	-
Total capital assets	74,836,827	-	96,789	109,578	5,105,244	80,148,438	18,496,785
<b>Other noncurrent assets:</b>							
Deferred charges	101,313	-	-	-	-	101,313	94,430
Total non current assets	78,889,032	-	96,789	109,578	5,105,244	84,200,643	18,591,216
Total assets	\$ 90,794,295	\$ 1,892,287	\$ 1,046,675	\$ 209,679	\$ 5,653,440	\$ 98,596,376	\$ 21,610,818

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

**CITY OF MOSES LAKE**  
**Statement of Net Position**  
**Proprietary Funds**  
**December 31, 2012**

Page 2 of 2

	Business-type Activities-Enterprise Funds						Governmental Activities
	Water/ Sewer	Sanitation	Ambulance	Airport	Storm Water	Totals	Internal Service Funds
<b>LIABILITIES</b>							
<b>Current liabilities:</b>							
Accounts payable	\$ 130,250	\$ 231,290	\$ 13,179	\$ 867	\$ 4,878	\$ 380,465	\$ 77,619
Salaries payable	78,020	3,154	61,689	-	12,419	155,281	38,020
Interfund loans payable	-	-	693,874	-	60,696	754,470	5,500,000
Revenues collected in advance	-	-	4,486	-	-	4,486	-
Interest payable	-	-	-	-	-	-	16,559
Capital leases payable	37,884	-	-	-	-	37,884	582,553
G. O. bonds payable	43,333	-	-	-	-	43,333	715,000
Compensated absences	33,374	482	21,207	-	1,213	56,276	6,768
Accrued interest	169,214	-	-	-	-	169,214	-
Interfund balances payable	9,634	-	2,055	-	4,478	16,167	67
Intergovernmental loan payable	638,009	-	-	-	-	638,009	-
Revenue bonds payable	735,000	-	-	-	-	735,000	-
Other short-term liabilities	1,335	20,052	-	-	-	21,388	-
Total current liabilities	1,876,054	254,978	796,491	867	83,684	3,011,974	6,936,566
<b>Noncurrent liabilities:</b>							
Revenue bonds payable(net discount/premium)	10,437,886	-	-	-	-	10,437,886	-
G.O. bonds payable(net discount/premium)	745,354	-	-	-	-	745,354	6,072,821
Intergovernmental loans payable	5,175,582	-	-	-	-	5,175,582	-
Compensated absences	300,370	4,338	190,862	-	10,917	506,486	60,909
Lease payable	3,007	-	-	-	-	3,007	990,253
Total noncurrent liabilities	16,662,200	4,338	190,862	-	10,917	16,868,316	7,123,982
Total liabilities	18,538,254	259,316	987,352	867	94,601	19,880,290	14,060,568
<b>NET POSITION</b>							
Net investment in capital assets	60,942,631	-	96,789	109,578	5,105,244	66,254,242	10,136,158
Restricted for debt service	1,409,250	-	-	-	-	1,409,250	-
Restricted for capital purposes	2,508,114	-	-	-	-	2,508,114	-
Unrestricted	7,396,047	1,632,972	(37,466)	99,233	453,695	9,544,480	(2,585,908)
Total net position	\$ 72,256,041	\$ 1,632,972	\$ 59,323	\$ 208,811	\$ 5,558,939	79,716,085	\$ 7,560,250

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

382,488

Net assets of business-type activities

\$ 80,098,573

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

**CITY OF MOSES LAKE**

**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For Year Ended December 31, 2012**

	Business-type Activities-Enterprise Funds					Totals	Governmental Activities
	Water/ Sewer	Sanitation	Ambulance	Airport	Storm Water		Internal Service Funds
<b>OPERATING REVENUES</b>							
Charges for services	\$ 9,230,827	\$ 2,334,266	\$ 2,390,364	\$ -	\$ 739,803	\$ 14,695,260	\$ 5,170,168
Intergovernmental revenues	-	-	-	-	-	-	6,700
Miscellaneous revenues	126,953	59	-	32,932	-	159,945	-
Total operating revenues	9,357,780	2,334,325	2,390,364	32,932	739,803	14,855,205	5,176,867
<b>OPERATING EXPENSES</b>							
Salaries and benefits	2,086,485	91,047	1,745,915	-	317,887	4,241,334	1,042,667
Supplies and contractual services	2,266,029	2,946,365	820,177	6,896	195,930	6,235,397	1,204,738
Utilities	430,023	-	-	4,749	20,304	455,077	105,671
Repairs and maintenance	184,469	-	3,616	6,281	9,547	203,913	221,669
Insurance claims and expenses	-	-	-	-	2,385	2,385	550,815
Depreciation and amortization	2,210,743	-	13,251	12,837	4,605	2,241,435	792,135
Total operating expenses	7,177,749	3,037,411	2,582,959	30,763	550,658	13,379,540	3,917,695
Operating income (loss)	2,180,031	(703,086)	(192,595)	2,170	189,145	1,475,665	1,259,172
<b>NONOPERATING REVENUES (EXPENSES)</b>							
Investment earnings	33,173	-	-	-	-	33,173	17,680
Insurance recoveries	-	-	-	-	-	-	2,430
Intergovernmental payments	(50,000)	-	-	-	-	(50,000)	-
Interest expense	(508,867)	-	(5,767)	-	(804)	(515,438)	(445,183)
Miscellaneous revenues	594,976	67,512	-	-	-	662,489	-
Miscellaneous expenses	-	-	-	-	-	-	1,158
Gain (loss) on disposal of assets	(58,739)	-	-	-	-	(58,739)	29,365
Total nonoperating revenues (expenses)	10,543	67,512	(5,767)	-	(804)	71,484	(394,550)
Income (loss) before contributions and transfers	2,190,574	(635,574)	(198,362)	2,170	188,341	1,547,149	864,622
Capital contributions	495,725	-	-	-	59,098	554,823	-
Transfers in	-	-	262,800	-	-	262,800	-
Transfers out	(1,900,000)	-	-	-	-	(1,900,000)	-
Change in net position	786,299	(635,574)	54,438	2,170	247,439	454,772	864,622
Net Position - beginning	71,469,742	2,268,546	4,884	208,842	5,311,500		6,885,628
Net Position - ending	\$ 72,256,041	\$ 1,632,972	\$ 59,323	\$ 208,811	\$ 5,558,939		\$ 7,550,250
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.						453,124	
Change in net position of business-type activities						\$ 907,896	

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, 2012**

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	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	\$ 9,223,399	\$ 2,338,865	\$ 2,245,398	\$ 34,023	\$ 738,594	\$ 14,578,287	\$ 5,177,052
Payments to suppliers	(3,322,957)	(2,920,885)	(837,352)	(18,548)	(225,865)	(7,325,407)	(2,227,559)
Payments to employees	(2,058,161)	(87,048)	(1,721,945)	-	(310,703)	(4,177,856)	(1,042,214)
Miscellaneous revenues	722,792	87,571	4,486	-	-	794,850	973
Miscellaneous expenses	-	-	(2,952)	-	(4,459)	(7,411)	-
Net cash provided by (used for) operating activities	4,565,072	(603,306)	(312,365)	15,474	187,568	3,862,443	1,908,253
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
Payments from (to) other funds	(14,296)	556,508	189,084	-	(16,080)	695,196	(9,811)
Advances from (to) other funds	(240,600)	-	-	-	-	(240,600)	-
Transfers from (to) other funds	(1,900,000)	-	252,800	-	-	(1,647,200)	-
Insurance recoveries	-	-	-	-	-	-	2,430
Other intergovernmental payments	(50,000)	-	-	-	-	(50,000)	-
Net cash used for noncapital financing activities	(2,204,896)	556,508	421,884	-	(16,080)	(1,242,604)	(7,381)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Proceeds from capital debt	-	-	-	-	-	-	2,421,685
Principal paid on debt	(1,445,763)	-	(28,754)	-	-	(1,474,517)	(3,415,728)
Interest paid on debt	(512,061)	-	(5,767)	-	-	(517,828)	(460,854)
Capital contributions	427,734	-	-	-	15,320	443,054	271,832
Purchases of capital assets	(3,933,854)	-	-	(16,280)	(79,570)	(4,029,704)	(1,279,754)
Proceeds of capital grants	-	-	-	-	32,237	32,237	-
Proceeds from sale of capital assets	-	-	-	-	-	-	62,257
Net cash provided by (used) for capital and related financing activities	(5,463,944)	-	(34,521)	(16,280)	(32,013)	(5,546,757)	(2,400,671)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Interest income	-	-	-	-	-	-	3
Net cash provided by investing activities	-	-	-	-	-	-	3
<b>Net increase (decrease) in cash and cash equivalents</b>	(3,103,767)	(46,798)	74,978	(805)	149,475	(2,926,918)	(499,696)
Cash and cash equivalents, January 1	11,359,416	485,543	230,035	71,362	278,909	12,425,255	3,429,353
Cash and cash equivalents, December 31	\$ 8,255,648	\$ 438,745	\$ 305,012	\$ 70,547	\$ 428,384	\$ 9,498,337	\$ 2,929,657

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, 2012**

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)	\$ 2,180,031	\$ (703,088)	\$ (192,595)	\$ 2,170	\$ 189,145	\$ 1,475,665	\$ 1,259,172
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation	2,210,743	-	13,261	12,837	4,605	2,241,435	792,135
Allowance for uncollectible accounts	-	-	575,180	-	-	575,180	-
Decrease (increase) in accounts receivable	475,637	2,588	(720,148)	1,090	(1,209)	(242,040)	-
Decrease (increase) in inventory	(46,460)	13,976	(12,393)	-	-	(44,878)	-
Decrease (increase) in prepaid expenses	-	-	-	-	(3,655)	(3,655)	(2,927)
(Decrease) increase in accounts payable	(395,975)	11,704	(1,165)	(622)	2,301	(363,758)	(141,738)
(Decrease) increase in salaries payable	11,629	1,005	6,985	-	2,838	22,457	4,359
(Decrease) increase in advances	-	-	1,534	-	-	1,534	-
(Decrease) increase in compensated absences	16,665	2,984	16,984	-	4,347	41,020	(3,906)
(Decrease) increase in miscellaneous revenues	112,774	67,512	-	-	(604)	179,683	1,156
Total adjustments	2,385,041	99,760	(119,771)	13,305	6,423	2,386,778	649,081
Net cash provided (used) by operating activities	\$ 4,565,072	\$ (603,308)	\$ (312,385)	\$ 15,474	\$ 197,568	\$ 3,862,443	\$ 1,908,253
<b>Noncash investing, capital, and financing activities:</b>							
Contributions of capital assets	\$ 427,734	\$ -	\$ -	\$ -	\$ 15,320	\$ 443,054	\$ -
Addition to capital leases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 106,384

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

**CITY OF MOSES LAKE**  
**Statement of Net Position**  
**Fiduciary Funds**  
**December 31, 2012**

	<b>Firemen's Pension Trust Fund</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 383,571	\$ 731,254
Escrow accounts	-	376,183
Total assets	<u>383,571</u>	<u>1,107,437</u>
<b>LIABILITIES</b>		
Custodial accounts payable	-	1,107,437
Long-term liabilities	566,857	-
Total liabilities	<u>566,857</u>	<u>1,107,437</u>
<b>NET POSITION</b>		
Held in trust for pension benefits and other purposes	<u>\$ (183,286)</u>	<u>\$ -</u>

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

**CITY OF MOSES LAKE****Statement of Changes in Net Position****Fiduciary Funds****For the year ended December 31, 2012**

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	<b>Firemen's Pension Trust Fund</b>
<b>ADDITIONS</b>	
Intergovernmental revenues	\$ 22,754
Transfers in	73,500
Total additions	<u>96,254</u>
<b>DEDUCTIONS</b>	
Benefits	21,190
Medical insurance and direct medical payments	163,250
OPEB expense	<u>20,624</u>
Total deductions	<u>205,064</u>
<b>CHANGE IN NET POSITION</b>	(108,810)
Net position - Beginning of the year	<u>(74,477)</u>
Net position - End of the year	<u><u>\$ (183,286)</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, 2012**

**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; (2) the City is legally entitled to, or can otherwise access, the organization's resources; (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; (4) 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 position 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 of a particular function or segment. Taxes

and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

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

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

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

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

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

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

The **Water/Sewer Fund** accounts for the activities of the City's utility. Revenues are received from water and sewer services provided to the general public. Expenses comprise maintenance and extensions of drainage, water and sewer service facilities, operating a water supply system, maintaining sewer treatment plants and operating a

water drainage system. This fund also reflects the operation of revenue bonds outstanding, the funds available for redemption of bonds, cumulative reserve and construction funds.

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

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 fund is supported with rental charges.

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

Additionally, the City of Moses Lake reports the following fund 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 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, and 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 element, 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 use fund balance and alter the total appropriations 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, 2012, the treasurer was holding \$18,633,098 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.

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, 2012, there were 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 First in First Out 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	\$	1,439,336
Cash Investments - Construction		2,508,114
Interest receivable		3,442
Total Restricted Assets	\$	<u>3,950,892</u>

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

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the City during the current fiscal year is \$1,196,459.

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
Stormwater 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 the bridge network. The City has elected to use the modified approach as defined in GASB Statement No. 34 for infrastructure reporting for storm water structures, the bridge, paved streets, bike paths, and alleys. There are no depreciation expenses reported for such assets nor 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 a 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	\$ 439,664	\$ -
Revenues not applied	-	749,691
Special assessments not yet due	84,756	-
	<u>\$ 524,420</u>	<u>\$ 749,691</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 a spendable form such as prepaids or inventory 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, which is the City Council, and does not lapse at year-end. Fund balance commitments are established, modified or rescinded by City Council action through passage of an ordinance.
- *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 City Manager or the Finance Director.
- *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. There is no current balance, due to economic conditions, the funds were used to offset the effects of lower than anticipated property taxes.

#### F. Adoption of New GASB Pronouncements

The City implemented the following GASB Pronouncements that were applicable, for the fiscal year ended December 31, 2012.

- 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

#### G. Future Adoption of GASB Pronouncements

The following GASB pronouncements have been issued but are not effective as of December 2012.

- Statement No. 67: Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25
- 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

## **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 Position

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 position.

### 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). (RCW 35A.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 requires this by 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 the preliminary budget and 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 the proposed budget are made available to the public, (RCW 35A.33.055 & 35A.33.052, no later than six weeks before January 1.)

Final hearing on the 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, 2012, the bank balance was \$1,450,933. Of the bank balance \$100,000 was covered by Federal Depositary Insurance that are insured, registered or held by the City or its 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, 2012 the City had the following investments:

Investment Type	Fair Value	Rating	Weighted Average Maturity (days)
Grant County Invest Pool	\$ 9,308,116	not rated	15
WA State Invest Pool	9,324,982	not rated	15
Total Fair Value	<u>\$ 18,633,098</u>		
Portfolio Weighted Average Maturity			15.21

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

**Credit Risk:** Safety of principle is the foremost objective of the City. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Washington State Investment Pool, 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 rating services in 2012. The same rating agency had upgraded the City's Revenue Bonds to "AA-" affirming a stable outlook in 2012.

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
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 2012 was \$3.148844 per \$1,000 on an assessed valuation of \$2,163,776,315 for a total regular levy of \$6,813,394.

## NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

### Capital Assets

A summary of capital assets for the year ended December 31, 2012 is as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
<b>Capital Assets Not Depreciated:</b>				
Land	\$ 5,336,510	\$ 40,572	\$ -	\$ 5,377,082
Infrastructure*	36,229,543	366,532	-	36,596,075
CIP	11,014,886	1,516,630	1,171,816	11,359,800
<b>Total Capital Assets not Depreciated</b>	<b>52,581,039</b>	<b>1,923,734</b>	<b>1,171,816</b>	<b>53,332,957</b>
<b>Capital Assets Depreciated:</b>				
Buildings	24,442,666	109,881	44,000	24,508,547
Intangible	147,051	-	-	147,051
Machinery and Equipment	11,363,595	932,362	686,339	11,809,618
Infrastructure	1,652,948	-	-	1,652,948
<b>Total</b>	<b>37,606,260</b>	<b>1,042,243</b>	<b>730,339</b>	<b>37,918,164</b>
<b>Less Accumulated Depreciation:</b>				
Buildings	9,222,233	784,058	39,600	9,966,691
Intangible	147,051	-	-	147,051
Machinery and Equipment	7,363,522	707,548	653,447	7,417,624
Infrastructure	796,734	42,613	-	839,347
<b>Total Accumulated Depreciation</b>	<b>17,529,541</b>	<b>1,534,219</b>	<b>693,047</b>	<b>18,370,713</b>
<b>Total Capital Assets Depreciated, Net</b>	<b>20,076,720</b>	<b>(491,976)</b>	<b>37,292</b>	<b>19,547,451</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 72,657,759</b>	<b>\$ 1,431,758</b>	<b>\$ 1,209,109</b>	<b>\$ 72,880,409</b>
		Less associated debt		(12,331,858)
		Capital assets net of debt		<u>\$60,548,550</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.

Business-type Activities	Beginning Balance	Increase	Decreases	Ending Balance
<b>Capital Assets Not Depreciated:</b>				
Land	\$ 872,646	\$ -	\$ -	\$ 872,646
CIP	4,086,145	4,097,695	7,881,395	302,445
Intangible	285,127	-	-	285,127
<b>Total Capital Assets not Depreciated</b>	<b>5,243,918</b>	<b>4,097,695</b>	<b>7,881,395</b>	<b>1,460,218</b>
<b>Capital Assets Depreciated:</b>				
Buildings	34,503,995	2,345,287	91,480	36,757,802
Machinery and Equipment	2,324,746	596,559	17,290	2,904,015
Infrastructure	67,709,750	4,939,549	327,570	72,321,729
<b>Total</b>	<b>104,538,491</b>	<b>7,881,395</b>	<b>436,340</b>	<b>111,983,546</b>
<b>Less Accumulated Depreciation:</b>				
Buildings	8,760,428	778,620	77,508	9,461,540
Machinery and Equipment	761,189	126,476	17,262	869,403
Infrastructure	21,909,873	1,337,339	282,830	22,964,382
<b>Total Accumulated Depreciation</b>	<b>31,431,491</b>	<b>2,241,435</b>	<b>377,601</b>	<b>33,295,326</b>
<b>Total Capital Assets Depreciated, Net</b>	<b>73,107,000</b>	<b>5,639,960</b>	<b>58,739</b>	<b>78,688,220</b>
<b>Business-type Activities Capital Assets, Net</b>	<b>\$ 78,350,918</b>	<b>\$ 9,737,654</b>	<b>\$ 7,940,134</b>	<b>\$ 80,148,438</b>
		Less associated debt		(17,816,057)
		Add restricted for debt service		1,409,250
		Add restricted for capital purposes		2,508,114
		Less non capital lease obligation		4,498
		Capital assets net of debt		<u>\$66,254,243</u>

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

Governmental Activities	Depreciation
General Government	\$ 39,322
Public Safety	22,906
Transportation	45,421
Public Works	6,792
Culture and Recreation	627,644
Capital Assets Held by the Government's Internal Service	
Funds are charged to the various functions based on their usage of the assets	792,134
Total Depreciation - Governmental Activities	<u>\$ 1,534,219</u>

Business-Type Activities	Depreciation
Water/Sewer	\$ 2,210,743
Storm water	4,605
Ambulance	13,250
Airport	12,837
Total Depreciation - Business-Type Activities	<u>\$ 2,241,435</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, 2012. 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
Biosolids Dewatering Project	\$ 1,444,930	\$ 99,376	\$ 1,345,554
Total	<u>\$ 1,444,930</u>	<u>\$ 99,376</u>	<u>\$ 1,345,554</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 GASB Statement 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 the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. 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 is comprised of and reported as three separate plans for accounting purposes: Plan 1,

Plan 2, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the Average Final Compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. 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 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. The benefit 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, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit 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. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

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.) 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 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. 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 has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were \$95.2 million, and plan refunds paid out were \$66.2 million.

The defined benefit portion of PERS Plan 3 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. There is no cap on years of service credit, and plan 3 provides the same cost-of-living allowance as Plan 2.

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 Early Retirement Factor 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.

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.

PERS Plan 2 and Plan 3 members 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.

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. 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 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
Total	<u>261,705</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. 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, 2012, were as follows:

Members not participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%**	7.21%**	7.21%***
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 10.74% for Plan 1 and 7.21% 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	
2012	\$	24,294	\$	368,222	\$	83,486
2011	\$	26,768	\$	299,621	\$	68,912
2010	\$	25,866	\$	245,886	\$	56,751

### Law Enforcement Officers' And Firefighters' 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.

LEOFF 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. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

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:

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 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, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered 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 1 members may 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 benefit.

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. 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 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 catastrophically 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, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

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, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

There are 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	9,947
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	656
Active Plan Members Vested	13,942
Active Plan Members Nonvested	3,113
Total	<u>27,658</u>

#### Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. 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, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations 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. For DRS' fiscal year 2012, the state contributed \$52.8 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2012, 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 2
2012	\$ 260,950
2011	\$ 248,733
2010	\$ 236,588

#### Other Retirement Systems - Volunteer Firefighters' Relief And Pension Fund

The Volunteer Firefighters' 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 monies 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. There were no payments for Volunteers in 2012. The City's VFT&P cost and the percentage of VFT&P cost contributed to the plan for 2012 and the two preceding years were as follows.

	Annual VFR&P Cost	Contribution as a % of VFR&P Cost
2012	\$ 0	100%
2011	\$ 300	100%
2010	\$ 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, 2012

Retirees currently receiving full retirement benefits through LEOFF	7
Retirees receiving benefits through both LEOFF and FPF	2
Beneficiaries receiving benefits through FPF . . . .	3
Active plan members' . . . . .	0

Current contributions to the plan are comprised of 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 three percent 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:

Firemen's Pension Fund					
Year	Assets * EOY	Pension Payments	Medical Service Costs	Percent of Medical to Total	Assets Available for Medical Costs
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
2012	\$397,796	\$21,190	\$163,250	88.51%	\$352,095

### 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 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 153 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 \$750,000, 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 agreement, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

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, 2012 were as follows:

Unemployment Compensation \$226,071

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

### A. Long Term Debt

The City of Moses Lake issues general obligation and revenue bonds to finance the purchase of land or upgrades 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
2003 LTGO Bond	Governmental - Internal Service	12/30/2003	09/01/2013	2,725,000	1.2 - 4.8%	130,000
2006 LTGO Bond	Governmental Activities	06/05/2006	08/01/2026	5,083,333	3.65-4.25%	3,975,000
2006 LTGO Bond	Operations Complex	06/05/2006	08/01/2026	1,016,667	3.65-4.25%	795,000
2010 LTGO Bond	Civic Center	09/07/2010	12/01/2020	5,925,000	2.00-3.25%	4,850,000
2012 LTGO Bond	Gov't - Internal Service Refunding	12/12/2012	09/01/2023	1,650,000	.75-3.00%	1,850,000
Total				\$ 16,400,000		\$ 11,400,000

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

Year	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 931,667	\$ 323,336	\$ 43,333	\$ 32,987
2014	940,000	308,963	45,000	31,297
2015	968,333	287,370	46,667	29,520
2016	991,667	263,437	48,333	27,653
2017	1,019,167	236,915	50,833	25,695
2018-2022	4,199,166	700,517	285,834	95,266
2023-2026	1,555,000	154,681	275,000	29,856
Total	\$ 10,605,000	\$ 2,275,219	\$ 795,000	\$ 272,274

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%	\$ 6,400,000
Revenue Bonds '08	08/23/2011	8/23/2021	4,905,000	2.24%	4,450,000
Total			<u>\$ 11,920,000</u>		<u>\$ 10,850,000</u>

Revenue bond debt service requirements to maturity are as follows:

Year	Principal	Interest	Total
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	905,000	330,625	1,235,625
2018-2022	4,530,000	1,114,351	5,644,351
2023-2024	2,280,000	172,500	2,452,500
Total	<u>\$ 10,850,000</u>	<u>\$ 3,165,549</u>	<u>\$ 14,015,549</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, 2012 the City has no arbitrage rebate liability.

#### Government Loans

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

Loan	Interest Rate	Amount
PWTF Reservoir #8	2.00%	228,950
PWTF WWTP-Design	.50%	290,523
PWTF WWTP-Construction	.50%	5,294,118
Total		<u>\$ 5,813,591</u>

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

Year	Principal	Interest	Total
2013	\$ 638,009	\$ 32,502	\$ 670,511
2014	638,009	28,167	666,176
2015	638,009	23,833	661,841
2016	561,692	19,498	581,190
2017	561,692	16,689	578,382
2018-2022	2,776,180	41,320	2,817,500
Total	<u>\$ 5,813,591</u>	<u>\$ 162,009</u>	<u>\$ 5,975,600</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, 2012, the City has \$175,955 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain \$1,439,336 in sinking funds and reserves as required by bond indentures.

**B. Refunded Debt**

The City issued \$1,650,000 of general obligation refunding bonds to provide resources to pay off the 2003 bond that refunded the 1997 fire station bond. The refunding was undertaken to reduce total debt service payments over the next ten years by \$150,652.

**NOTE 10 - LEASES**

**Capital Leases**

The City of Moses Lake has entered into lease agreements for financing machinery, 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, and 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:

<u>Net Capital Lease Asset</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Other Improvements	\$ -	\$ 23,288
Machinery & Equipment	3,773,974	207,030
Less Accumulated Depreciation	1,209,148	95,867
<b>Total</b>	<b>\$ 2,564,826</b>	<b>\$ 134,451</b>

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2012 are as follows:

	<u>Governmental</u>	<u>Business-Type</u>
2013	\$ 626,628	\$ 39,442
2014	526,858	3,015
2015	319,696	-
2016	193,313	-
<b>Total Minimum Lease Payments</b>	<b>1,666,495</b>	<b>42,457</b>
<b>Less: Interest</b>	<b>65,893</b>	<b>1,566</b>
<b>Present Value of Minimum Lease Payments</b>	<b>\$ 1,600,602</b>	<b>\$ 40,891</b>

## NOTE 11 - CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2012, the following changes occurred in long-term liabilities: 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 \$ 7,150,883 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.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Internal Service Funds
<b>Governmental activities</b>						
Bonds payable:						
General obligation bonds	\$ 11,843,332	\$ 1,650,000	\$ 2,888,333	\$ 10,604,999	\$ 931,667	\$ 6,787,821
Less deferred amount						
Issuance premiums(discounts)	90,423	78,628	42,793	126,258	-	157,821
Total bonds	11,933,755	1,728,628	2,931,126	10,731,256	931,667	6,945,642
Capital leases	1,632,734	875,000	907,132	1,600,602	592,585	1,572,808
Claims and judgments	-	-	-	-	-	-
Compensated absences	1,708,748	28,231	6,220	1,730,759	6,768	60,909
OPEB	400,752	16,379	-	417,131	-	-
<b>Governmental liabilities</b>	<u>\$ 15,675,989</u>	<u>\$ 2,648,237</u>	<u>\$ 3,844,478</u>	<u>\$ 14,479,748</u>	<u>\$ 1,531,020</u>	<u>\$ 8,579,356</u>
<b>Business-type activities</b>						
Bonds payable:						
General obligation bonds	\$ 836,668	\$ -	\$ 41,667	\$ 795,000	\$ 43,333	
Revenue bonds	11,555,000	-	705,000	10,850,000	735,000	
Less deferred amounts						
Issuance premiums(discounts)	344,969	4,416	32,811	316,574	-	
Total bonds	12,736,637	4,416	779,478	11,961,574	778,333	
Capital leases	110,010	-	69,119	40,891	37,884	
Government loans	6,472,322	-	658,731	5,813,591	638,009	
Compensated absences	521,742	21,331	(19,689)	562,762	56,276	
<b>Business-type liabilities</b>	<u>\$ 19,840,712</u>	<u>\$ 25,747</u>	<u>\$ 1,487,639</u>	<u>\$ 18,378,819</u>	<u>\$ 1,510,502</u>	

## 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, 2012, significant suits were:

### Pending

1. 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.
2. 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. Legal counsel for the City's insurance carrier did not prevail on summary judgment, and the case is now being considered for mediation in March and April of 2013.
3. 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. In May, 2012, New Cingular Wireless (formerly AT&T) filed a complaint in King County Superior Court naming 132 cities as defendants, including the City of Moses Lake. New Cingular Wireless seeks a refund from the City of Moses Lake of approximately \$180,000 for data service charges which it collected and paid utility taxes on in a violation of the Internet Tax Freedom Act. The City's insurance carrier, Washington Cities Insurance Association of Washington, has issued a coverage determination letter denying coverage for this claim. The City, along with several other defendant cities, has retained the services of Wayne Tanaka with Ogden Murphy Wallace Law Firm of Seattle to represent it in this litigation. This lawsuit is currently in the discovery phase, and the City will continue to vigorously defend this lawsuit.
4. Trujillo v. City: This is a claim for being struck by a third party hit and run driver who detoured through a private parking lot because of City street work on an adjacent street. The City's insurer is defending this claim and City's exposure is limited to its \$25,000 deductible. The City's insurer denied the claim on May 24, 2012, and Plaintiffs have taken no further action in pursuit of this claim.
5. Gonzalez v. City: This is a claim for damages resulting from alleged civil rights and constitutional rights violations committed by the City's police officers during the arrest of Mr. Gonzalez for obstructing a public servant. Mr. Gonzalez was tased by an officer and is now claiming damages based upon a variety of legal theories, including excessive use of force, violation of equal protection and due process of law, and negligent hiring/supervision. He is requesting unspecified damages for a variety of alleged impacts including medical expenses, lost earnings, pain and suffering, and future permanent partial disability. The City's insurer is defending this claim and the City's exposure is limited to its \$25,000 deductible. This case has been removed to Federal District Court and is scheduled for jury trial on June 9, 2014. The City intends to vigorously defend this case.

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

### **NOTE 13 - RESTRICTED COMPONENT OF NET POSITION**

The government-wide statement of net position reports \$4,422,932 of restricted component of net position, of which \$228,899 is restricted by enabling legislation.

## NOTE 14 - INTERFUND BALANCES AND TRANSFERS

### Interfund Balances

Loans between funds are classified as interfund loans receivable or payable on the statement of net position. The loans were for Operations Complex construction, Civic Center Construction, and operating expenses. Interfund balances at December 31, 2012 were as follows:

PAY TO	PAYABLE FROM				
	GENERAL	BUILDING	STORMWATER	AMBULANCE	TOTALS
	FUND	MAINTENANCE	FUND	FUND	
SANITATION	\$ 765,649	\$		\$ 272,682	\$ 1,038,331
WATER/SEWER		5,500,000	\$ 60,596	421,192	5,981,788
TOTALS	\$ 765,649	\$ 5,500,000	\$ 60,596	\$ 693,874	\$ 7,020,119

### 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 TO	TRANSFERS FROM							
	GENERAL	STREETS	CONTINGENCY	SPECIAL REVENUE	DEBT SERVICE	Water Sewer	CAPITAL PROJECTS	Totals
GENERAL	\$ -	\$ -	\$ 581,000	\$ 100,000	\$ 276	\$ 1,900,000	\$ 257,449	\$ 2,838,725
STREETS	1,300,000	-	-	-	-	-	-	1,300,000
SPECIAL REVENUE	202,689	-	-	-	-	-	-	202,689
DEBT SERVICE	299,825	152,300	-	198,000	-	-	-	650,125
AMBULANCE	252,800	-	-	-	-	-	-	252,800
FIREMEN'S PENSION	73,500	-	-	-	-	-	-	73,500
Totals	\$ 2,128,813	\$ 152,300	\$ 581,000	\$ 298,000	\$ 276	\$ 1,900,000	\$ 257,449	\$ 5,317,839

## NOTE 15 - SEGMENT INFORMATION

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

	Water	Sewer	Total
<b>CONDENSED STATEMENT OF NET POSITION</b>			
<b>Assets:</b>			
Current asset	\$ 9,894,037	\$ 2,011,226	\$ 11,905,263
Restricted assets	1,368,867	2,582,025	3,950,892
Capital assets	34,921,817	39,915,010	74,836,827
Other assets	50,656	50,656	101,313
<b>TOTAL ASSETS</b>	<b>46,235,378</b>	<b>44,558,917</b>	<b>90,794,295</b>
<b>Liabilities:</b>			
Current liabilities	123,869	84,400	208,269
Current liabilities payable from restricted assets	533,805	1,133,980	1,667,784
Noncurrent liabilities	6,111,910	10,550,290	16,662,200
<b>TOTAL LIABILITIES</b>	<b>6,769,584</b>	<b>11,768,670</b>	<b>18,538,254</b>
<b>Net Position:</b>			
Net investment in capital assets	28,109,050	29,020,005	57,129,055
Restricted	1,436,744	2,751,051	1,409,250
Unrestricted	9,920,000	1,019,191	10,939,190
<b>TOTAL NET POSITION</b>	<b>\$ 39,465,794</b>	<b>\$ 32,790,247</b>	<b>\$ 72,256,041</b>

<b>CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b>			
<b>Operating Revenues</b>			
Total operating revenues	\$ 5,605,541	\$ 3,752,239	\$ 9,357,780
Depreciation, amortization, depletion	(1,028,030)	(1,182,712)	(2,210,743)
Total operating expense	(3,019,903)	(1,947,103)	(4,967,006)
Operating income	1,557,608	622,424	2,180,031
<b>Nonoperating revenue (expenses):</b>			
Interest income	16,768	16,405	33,173
Miscellaneous revenues/expense	353,866	241,111	594,976
Intergovernmental payments	(50,000)	-	(50,000)
Interest expense	(237,593)	(271,274)	(508,867)
Disposal of assets	(44,740)	(14,000)	(58,739)
Total Non-Oper Rev.(Exp.)	38,301	(27,757)	10,543
Income Before Transfers	1,595,908	594,666	2,190,574
Capital contributions	406,309	89,416	495,725
Transfers in (out)	(1,900,000)	-	(1,900,000)
Change in net position	102,217	684,082	786,299
Beginning net position	39,363,577	32,106,165	71,469,742
Ending net position	<b>\$ 39,465,794</b>	<b>\$ 32,790,247</b>	<b>\$ 72,256,041</b>

<b>CONDENSED STATEMENT OF CASH FLOWS</b>			
<b>Net cash provided (used) by:</b>			
Operating activities	\$ 2,852,666	\$ 1,712,407	\$ 4,565,072
Noncapital financing activities	(1,407,964)	(796,932)	(2,204,896)
Capital & related financing activities	(2,729,591)	(2,734,353)	(5,463,944)
Net increase (decrease)	(1,284,889)	(1,818,878)	(3,103,767)
Beginning cash & cash equivalents	8,985,720	2,373,695	11,359,415
Ending cash & cash equivalents	<b>\$ 7,700,831</b>	<b>\$ 554,817</b>	<b>\$ 8,255,648</b>

## **NOTE 16 - 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 18 individuals that meet the eligibility requirements.

### Law Enforcement Officers' and Firefighters' 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 Firefighters' 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 2012 there are no active members, and currently 18 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 2012, the City paid medical insurance premiums of \$166,736 for pre-age 65, and \$110,311 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	\$ 153,189	\$ 201,390	\$ 354,579
Interest on net OPEB obligation	7,815	10,652	18,466
Adjustment to annual required contribution	(20,665)	(28,167)	(48,833)
Annual OPEB cost (expense)	140,338	183,874	324,212
Contributions made	123,959	163,250	287,209
Increase in net OPEB obligation	16,379	20,624	37,003
Net OPEB obligation-Beginning of year	400,753	546,233	946,986
Net OPEB obligation-End of year	<u>\$ 417,132</u>	<u>\$ 566,857</u>	<u>\$ 983,989</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 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
12/31/2010	148,204	110,495	75%	357,472
12/31/2011	152,638	109,357	72%	400,753
12/31/2012	140,338	123,959	88%	417,132

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
12/31/2010	207,092	143,111	69%	485,981
12/31/2011	202,724	142,472	70%	546,233
12/31/2012	183,874	163,250	89%	566,857

### Funding Status and Funding Progress

As of December 2012, the actuarial accrued liability for benefits was \$6,744,614 (total of both departments) which has a funded portion of \$383,571 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 health care 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 health care 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 Projections 2009-2019 Tables, Table 16: National Health Expenditure Amounts, and Annual Percent Change by Type of Sponsor: Calendar Years 2006-2021 published 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 1.95%. 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 1.95 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, 2012 is twenty-three 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)
12/31/2010	-	3,047,854	3,047,854	0%	0	0%
12/31/2011	-	3,049,063	3,049,063	0%	0	0%
12/31/2012	-	2,913,881	2,913,881	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)
12/31/2010	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%
12/31/2012	383,571	4,214,304	3,830,733	9%	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	2012		2011-2009		2008-2006	
	Feet	%	Feet	%	Feet	%
VERY POOR	14,989	2.02%	16,247	2.31%	24,932	4.20%
POOR	8,818	1.19%	3,980	0.57%	30,790	5.19%
FAIR	18,746	2.53%	31,465	4.48%	62,906	10.60%
GOOD	153,206	20.69%	109,243	15.54%	154,468	26.03%
VERY GOOD	544,763	73.56%	542,054	77.11%	320,411	53.99%
TOTAL	740,522	100.00%	702,989	100.00%	593,507	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	2012		2011-2009		2008-2006	
	Feet	%	Feet	%	Feet	%
PCR 0 to 39	23,807	3.21%	20,227	2.88%	55,722	9.39%
PCR 40 to 100	716,715	96.79%	682,762	97.12%	537,785	90.61%
Total	740,522	100.00%	702,989	100.00%	593,507	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 2012.

	Amounts in Thousands								
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Budgeted	158	1,210	550	700	1,400	1,295	975	1,376	438
Expended	265	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 street 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 SR, 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 whose 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 its bridge 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 the 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% 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 570 were inspected in 2012. That is 48% 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. The last two years are as follows.

	<u>Amounts in Thousands</u>	
	<u>2012</u>	<u>2011</u>
Budgeted	543	388
Expended	462	394



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

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

Our mission is to work 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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