Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

City of Pullman
Whitman County

Audit Period
January 1, 2013 through December 31, 2013

Report No. 1012424

Issue Date
September 2, 2014

Washington State Auditor
Troy Kelley
Independence • Respect • Integrity

Washington State Auditor
Troy Kelley

September 2, 2014

Mayor and City Council
City of Pullman
Pullman, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Pullman's financial statements and compliance with federal laws and regulations

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Whitman County
January 1, 2013 through December 31, 2013

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Federal Summary

City of Pullman
Whitman County
January 1, 2013 through December 31, 2013

The results of our audit of the City of Pullman are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
20.509	Formula Grants for Other Than Urban Areas
20.500	Federal Transit Cluster - Federal Transit - Capital Investment Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The City qualified as a low-risk auditee under OMB Circular A-133.

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 Pullman
Whitman County
January 1, 2013 through December 31, 2013

Mayor and City Council
City of Pullman
Pullman, 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 Pullman, Whitman County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 6, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

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.

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

August 6, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

City of Pullman
Whitman County
January 1, 2013 through December 31, 2013

Mayor and City Council
City of Pullman
Pullman, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Pullman, Whitman County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report 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

August 6, 2014

Independent Auditor's Report on Financial Statements

City of Pullman
Whitman County
January 1, 2013 through December 31, 2013

Mayor and City Council
City of Pullman
Pullman, 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 Pullman, Whitman County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 11.

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 Pullman, as of December 31, 2013, 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 2013, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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 12 through 19 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.

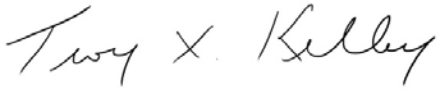
Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other

additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2014 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.



TROY KELLEY
STATE AUDITOR

August 6, 2014

Financial Section

City of Pullman
Whitman County
January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013
Statement of Activities – 2013
Balance Sheet – Governmental Funds – 2013
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – 2013
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds – 2013
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund – 2013
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Street Fund – 2013
Statement of Net Position – Proprietary Funds – 2013
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds – 2013
Statement of Cash Flows – Proprietary Funds – 2013
Statement of Fiduciary Net Position – Fiduciary Funds – 2013
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2013
Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013
Notes to the Schedule of Expenditures of Federal Awards – 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of Pullman, Washington (the City)'s annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City as of and for the fiscal year ended December 31, 2013. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights

- The City's assets exceeded its liabilities by $106,047,026 (net position) for the fiscal year reported.

- Total net position are comprised of the following:

  (1) Net investment in capital assets of $82,982,809 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  (2) Net position of $2,962,904 are restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  (3) Unrestricted net position of $20,101,313 represent the portion available to maintain the City's continuing obligations to citizens and creditors.

- The City's governmental funds reported total ending fund balance of $8,412,830 this year. This compares to the prior year ending fund balance of $7,265,365, showing an increase of $1,147,465 during the current year. Unassigned fund balance of $2,390,704 for fiscal year 2013 shows a $1,117,938 increase from the prior year.

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $2,390,704, or 14.8 percent of total General Fund expenditures including transfers and 13.7 percent of total General Fund revenues including transfers.

- Overall, the City continues to maintain a stable financial position.

The above financial highlights are explained in more detail in the "financial analysis" section of this document.

Overview of the Financial Statements

This Management Discussion and Analysis document introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The intent of this section of the management's discussion and analysis is to introduce and explain the basic financial statements. The financial statements are prepared in accordance with accounting principles generally accepted in the United States as proclaimed by the GASB principles.

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall financial status. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to that used by the private sector.

The first of these government-wide statements is the *Statement of Net Position.* This is the government-wide statement of position presenting information that includes all of the City's assets and liabilities, with the difference 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 as a whole is improving or deteriorating. Evaluation of the overall health of the City would extend to other nonfinancial factors such as changes to the City's property tax base, changes to the sales tax base, and the condition of the City's infrastructure.

The second government-wide statement is the *Statement of Activities,* which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements differentiate governmental activities of the City that are principally supported by property, sales and utility taxes from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government services, public safety, physical environment, transportation, economic environment, mental health & physical health, and culture and recreation. Business-type activities include the utility services and transit services. The internal service funds provide services to other funds within the City and the majority of these activities are reported in governmental activities at the government-wide financial reporting level.

The government-wide financial statements are presented immediately following this Management Discussion and Analysis (MD&A).

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregate presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report.

The City has three kinds of funds:

Governmental funds are reported in the fund financial statements and encompass the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund operating statement provide a reconciliation to illustrate the differences between these two perspectives.

Budgetary comparison statements are included as "basic financial statements" for the major, general and street funds. These statements demonstrate compliance with the City's adopted and final revised budget.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. The City proprietary funds are classified as enterprise funds. The enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. The internal service funds provide services to other funds of the City.

Fiduciary funds include two trust funds. The City reports these funds only at the fund level since the resources in these funds are not available for City use.

Notes To The Basic Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Financial Analysis of the City as a Whole

The City implemented the new financial reporting model used in this report beginning with the year ended December 31, 2003. Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the City as a whole.

The City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Reporting and Fund Type Definitions*, during 2011.

The City's net position at fiscal year-end are $106,047,026. The following table provides a summary of the City's net position as of December 31, 2013 and December 31, 2012:

Summary of Net Position

	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Assets:								
Current assets	$10,769,229	$10,286,155	$16,490,587	$14,978,227	$27,259,816	$25,264,382	22.1%	22.3%
Restricted assets	632,514	662,453	58,245	46,220	690,759	708,673	0.6%	0.6%
Capital assets	33,477,917	33,165,979	61,562,908	54,427,489	95,040,825	87,593,468	77.3%	77.1%
Total assets	44,879,660	44,114,587	78,111,740	69,451,936	122,991,400	113,566,523	100.0%	100.0%
Liabilities:								
Current liabilities	3,071,263	2,332,810	1,746,300	2,042,101	4,817,563	4,374,911	28.4%	30.6%
Long-term liabilities	2,034,022	2,385,746	10,092,789	7,526,599	12,126,811	9,912,345	71.6%	69.4%
Total liabilities	5,105,285	4,718,556	11,839,089	9,568,700	16,944,374	14,287,256	100.0%	100.0%
Net position:								
Net investment in capital assets	32,304,877	31,612,847	50,677,932	46,118,703	82,982,809	77,731,550	78.3%	78.3%
Restricted	2,584,540	2,796,625	378,364	-	2,962,904	2,796,625	2.8%	2.8%
Unrestricted	4,884,958	4,986,559	15,216,355	13,764,533	20,101,313	18,751,092	18.9%	18.9%
Total net position	$39,774,375	$39,396,031	$66,272,651	$59,883,236	$106,047,026	$99,279,267	100.0%	100.0%

The City continues to maintain an acceptable current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 3.5 to 1 and 9.4 to 1 for business-type activities. For the City overall, the current ratio is 5.7 to 1. We consider these ratios within an acceptable range.

The City reported positive balances in net position for both governmental and business-type activities. Net position increased $378,344 for governmental activities and increased by $6,389,415 for business-type activities. The City's overall financial position improved during fiscal year 2013.

Note that approximately 84.2 percent of the governmental activities' net position are tied up in capital. Also, note that the City began capitalizing their total infrastructure December 31, 2007. The City uses these capital assets to provide services to its citizens. However, with business-type activities, the City has spent approximately 92.9 percent of its net position on capital. Capital assets in the business-type activities provide utility services, but they also generate revenues for these funds. Capital assets make up 89.6 percent of the City's total net position.

The following table provides a summary of the City's changes in net position as of December 31, 2013 and December 31, 2012:

Summary of Changes in Net Position

	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Revenues:								
Program:								
Charges for services	$3,720,898	$3,422,128	$14,662,877	$13,582,565	$18,383,775	$17,004,693	45.7%	46.7%
Fines and forfeits	-	-	-	-	-	-	0.0%	0.0%
Miscellaneous	-	-	-	-	-	-	0.0%	0.0%
Operating Grants	2,890,462	3,037,344	2,597,302	1,363,260	5,487,764	4,400,604	13.6%	12.0%
Capital Grants	-	-	1,783,460	676,576	1,783,460	676,576	4.4%	1.9%
General:			-	-	-	-		
Taxes	14,444,232	14,244,985	-	-	14,444,232	14,244,985	35.9%	39.1%
Interest	100,832	88,338	14,177	24,821	115,009	113,159	0.3%	0.3%
Other revenues	23,821	-	-	-	23,821	-	0.1%	0.0%
Disposition of capital assets	-	-	-	-	-	-	0.0%	0.0%
Total revenues	21,180,245	20,792,795	19,057,816	15,647,222	40,238,061	36,440,017	100.0%	100.0%
Program expenses:								
Gen Gov't Services	2,768,381	987,769	-	-	2,768,381	987,769	8.6%	3.4%
Public Safety	11,035,644	10,972,620	-	-	11,035,644	10,972,620	34.6%	37.3%
Highways and Streets	1,591,526	1,847,764	-	-	1,591,526	1,847,764	5.0%	6.3%
Economic Development	-	-	-	-	-	-	0.0%	0.0%
Culture & Recreation	5,495,605	5,044,861	-	-	5,495,605	5,044,861	17.2%	17.1%
Int & Other Debt Service Costs	117,939	127,793	-	-	117,939	127,793	0.4%	0.4%
Utilities	-	-	7,657,267	7,420,118	7,657,267	7,420,118	24.0%	25.2%
Other business types	-	-	3,250,830	3,039.015	3,250,830	3,039.015	10.2%	10.3%
Total expenses	21,009,095	18,980,807	10,908,097	10,459,133	31,917,192	29,439,940	100.0%	100.0%
Excess revenues	171,150	1,811,988	8,149,719	5,188,089	8,320,869	7,000,077		
Transfers	207,194	(220,012)	(63,707)	299,639	143,487	79,627		
Prior period adjustments	-	-	(1,696,597)	(1,218,753)	(1,696,597)	(1,218,753)		
Change in net position	378,344	1,591,976	6,389,415	4,268,975	6,767,759	5,860,951		
Beginning net position	39,396,031	37,804,055	59,883,236	55,614,261	99,279,267	93,418,316		
Ending net position	$39,774,375	$39,396,031	$66,272,651	$59,883,236	$106,047,026	$99,279,267		

GOVERNMENTAL REVENUES

The City is heavily reliant on three types of taxes to support governmental operations. Property taxes provided 25.6 percent of the revenues for governmental activities. Sales taxes provided 18.6 percent of these revenues, and utility taxes total 17.3 percent. Charges for services totaled 17.6 percent of these revenues. Note that program revenues cover approximately 31.5 percent of governmental operating expenses. This means that the government's taxpayers and the City's other general revenues fund 68.5 percent of the governmental activities. As a result, the general economy and the local businesses have a major impact on the City's revenue streams.

GOVERNMENTAL FUNCTIONAL EXPENSES

Public safety costs comprise 52.5 percent of the City's total governmental expenses. Highways and Streets costs make up 7.6 percent of the total governmental expenses. The general government services expenses are 13.2 percent of governmental expenses.

This table presents the cost of each of the City's programs, including the net costs (i.e., total cost less revenues generated by the activities). The net costs illustrate the financial burden that was placed on the City's taxpayers by each of these functions.

Governmental Activities

	Total Cost Of Services		Net Cost Of Services	
	2013	2012	2013	2012
Gen Gov't Services	$2,768,381	$987,769	$(1,682,634)	$317,169
Public Safety	11,035,644	10,972,620	(8,854,164)	(8,979,416)
Highways and Streets	1,591,526	1,847,764	144,482	(367,489)
Culture & Recreation	5,495,605	5,044,861	(3,887,480)	(3,363,806)
Int & Other Debt Service Costs	117,939	127,793	(117,939)	(127,793)
Total	$21,009,095	$18,980,807	$(14,397,735)	$(12,521,335)

Program revenues covered the program expenses for only one function, interest on long-term debt.

BUSINESS-TYPE ACTIVITIES
Revenues vs. Costs

For all enterprise funds, the City reports a current ratio of 9.4 to 1, which is a healthy ratio. The business-type activities report capitalized assets of $61.6 million, which provide a variety of services to the citizens of Pullman.

The business-type activities report $15.2 million in unrestricted net position, which provides these funds with adequate resources to maintain service levels without substantial increases in their revenue streams.

The operating revenues for both of the City's enterprise funds increased $1,155,347 or 9.6 percent more than 2012, with operating expenses $749,702 or 6.4 percent more than 2012. Within the total business-type activities of the City, these enterprise funds reported $763,747 operating income compared to operating income of $358,102 for the prior year. A detailed discussion of the major enterprise funds is presented in a separate section below.

Financial Analysis of the City's Funds

Governmental funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of approximately $8.4 million. Of this year-end total, $2.4 million is unassigned indicating an increasing availability for continuing City service requirements. Legally restricted fund balances, are captured under other governmental funds, include $627,959 to the Lawson Expendable Trust, Firemen Pension Fund, and the Cemetery Perpetual Care Fund.

The total ending fund balances of governmental funds show an increase of $1,147,465 or 15.8 percent above the prior year. This increase is primarily the result of the events and programs described within the analysis of the City's governmental activities.

Major Governmental Funds

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The General Fund's fund balance increased by $1,100,533. In the prior year, the fund balance increased by $783,241. Unassigned fund balance as a percentage of expenditures was 14.9 percent of operations or slightly less than two months of operations. The unassigned fund balance is in a better position to protect the fund against unforeseen emergencies or downturns in the economy. Action was taken in 2012 and 2013 to correct the decreasing fund balance situation.

Taxes totaling $14.4 million made up 68.2 percent of total governmental funds revenue in 2013 as compared to 68.5 percent in 2012. Sales taxes decreased approximately 0.1 percent or $37,383 as the City has seen upticks in the economy in both 2013 and 2012.

General fund expenditures increased $347,250 or approximately 2.2 percent. This is a smaller increase than budgeted and is related to staff efforts to curtail expenditures. Public safety made up 65.6 percent of total expenditures. Since the general fund supports a number of programs in other funds, $98,095 was transferred to these funds including $61,923 to the equipment rental fund, $32,013 to the Airport, and $4,159 to the information systems fund.

The streets fund ended the year with a increase in fund balance of $258,055. After the above-mentioned transfers, the net fund balance in the equipment rental, government buildings, and the information systems funds were $5,555,940, $783,887 and $360,570, respectively.

The Proprietary Funds

The City reports two primary enterprise funds, of which both are considered major funds. One fund provides the utility services of water and sewer and the other provides transit services to the citizens of Pullman. The City also maintains three internal service funds.

The Water and Sewer Systems - The water and sewer systems report net position of $56.9 million, with $43.7 million or 76.8 percent invested in capital assets. The current ratio for this fund is 9.7 to 1 which provides this fund with adequate resources to cover cash flow issues.

The water and sewer systems reported operating income of $3,089,017 with a total increase in net position of approximately $4,933,652 after capital contributions and transfers in from other funds. The operating income amount is more favorable than the operating income of $2,526,459 in 2012. The change in net position amount is more favorable than the change in net position of $4.2 million in 2012.

The Transit System - The transit system reports net position of $7.7 million, with $7.0 million or 90.6 percent invested in capital assets. The current ratio for this fund is 3.7 to 1 which provides this fund with adequate resources to cover cash flow issues.

The transit system reported operating loss of $2,325,270 with a total increase in net position of approximately $1,199,236 after capital contributions and transfers in from other funds. The operating income amount is not as favorable as the loss of $2,168,357 in 2012. The change in net position amount is more favorable than the decrease in net position of $164,319 in 2012.

Budgetary Highlights

The General Fund - The General Fund's original revenue budget was less than the 2013 actual results and the expenditure budget was less than the 2013 actual results. The City Council amended both the revenue and expenditure budgets during 2013, which resulted in a 4.6 percent net change between the original and final budgets. In total, actual revenues were more than the final budget by $508,745 or about 3.0 percent above budget. The primary changes in the revenue budgets are related to taxes, inspection fees and ambulance billings. The total actual expenditures were less than the final budget by $694,039 or about 4.1 percent below budget. The primary changes to the expenditure budgets were salary and benefit costs savings from not filling positions in Library (cultural and recreation) and Police, overtime expenditures increased in the Fire department, and expenditure reductions by departments.

On the revenue side of the budget, the primary difference between the final budget and the actual amounts relates to utility taxes, licenses and permits, and contributions and donations. The difference in utility taxes relates to increase in water sales and electricity/gas tax. The difference in licenses and permits relates to increase in building. The difference in charge for services relates to ambulance billings and plan check fees.

On the expenditure side of the budget, the largest favorable variances between the final budget and the actual amounts are in police, cultural and recreational, finance, and administration. The police function was less than the final budget by $288,638 or a 5.0 percent difference. The actual amounts expended by cultural and recreational were less than the final budget by $309,518 or a 7.0 percent difference. The actual amounts expended by the finance and administration function were less than the final budget by $54,408 or a 7.6 percent difference. The largest unfavorable variance between the final budget and the actual amounts is in the fire function, which was more than the final budget by $18,146 or a 0.4 percent difference.

The City staff considers the annual budget to be an extremely important document and attempts to include in the budget, their best estimate of revenue and expenditures.

Capital Assets and Debt Administration

Capital assets

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of December 31, 2013, was $33.5 million and $61.6 million, respectively. The total change in net investment was a 0.9 percent increase for governmental and a 13.1 percent increase for business-type activities. The overall increase was 8.5 percent for the City as a whole. See Note 6 for additional information about changes in capital assets during the fiscal year and outstanding at the end of the year. The following table provides a summary of capital asset activity:

Capital Assets

(Amounts Presented in $1,000's)

	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Non-depreciable assets:								
Land	$1,306	$1,235	$997	$997	$2,303	$2,232	1.6%	1.7%
Construction in progress	839	1,526	11,640	9,300	12,479	10,826	8.9%	8.3%
Total non-depreciable	2,145	2,761	12,637	10,297	14,782	13,058	10.5%	10.0%
Depreciable assets:								
Plant in service	-	-	75,433	68,591	75,433	68,591	53.5%	52.8%
Buildings	6,362	6,362	-	-	6,362	6,362	4.5%	4.9%
Other improvements	5,620	5,417	-	-	5,620	5,417	4.0%	4.1%
Machinery and equipment	8,647	8,310	-	-	8,647	8,310	6.1%	6.4%
Infrastructure	30,122	28,293	-	-	30,122	28,293	21.4%	21.8%
Total depreciable assets	50,751	48,382	75,433	68,591	126,184	116,973	89.5%	90.0%
Total cost of capital assets	52,896	51,143	88,070	78,888	140,966	130,031	100.0%	100.0%
Accumulated depreciation	19,418	17,977	26,507	24,461	45,925	42,438		
Book value - capital assets	$33,478	$33,166	$61,563	$54,427	$95,041	$87,593		
Percentage depreciated	36.7%	35.2%	30.1%	31.0%	32.6%	32.6%		

At December 31, 2013, the depreciable capital assets for governmental activities were 36.7 percent depreciated compared to 35.2 percent at December 31, 2012. These percentages provide an indicator that the City is maintaining and replacing their assets at a slightly unfavorable rate.

With the City's business type activities, 30.1 percent of the asset values were depreciated at December 31, 2013 compared to 31.0 percent at December 31, 2012. These percentages provide an indicator that the City is maintaining and replacing their assets at a favorable rate.

Long-term debt

At the end of the fiscal year, the City had long-term debt outstanding of $12.1 million. Of this amount, $1,090,000 or 9.0 percent is backed by the full faith and credit of the City (general obligation bonds) with debt service fully funded by voter-approved property taxes or general government revenue, and a revenue bond amounting to $2,290,000 or 19.0 percent. The other major components are $8,678,000 supported by pledged revenues generated primarily by the business-type activities of the City (Public Works Trust Fund loans and Department of Ecology Water Pollution Control Revolving Fund Loan) and the governmental activities of the City (LOCAL Program).

During the year, the City retired $1,162,279 or 11.8 percent of the beginning outstanding borrowed debt balance and added $3,358,377 for a net increase of $2,196,098.

Outstanding Borrowings

(in $1,000's)

	Governmental Activities		Business-Type Activities		Totals		Percentage
	2013	2012	2013	2012	2013	2012	Change
General obligation bonds	$1,090	$1,355	$ -	$ -	$1,090	$1,355	-19.6%
Special assessment debt	-	-	-	-	-	-	0.0%
Revenue bonds	-	-	2,290	2,390	2,290	2,390	-4.2%
Capital leases	64	119	-	-	64	119	-46.2%
Bank and other loans	19	79	8,595	5,919	8,614	5,998	43.6%
Total	$1,173	$1,553	$10,885	$8,309	$12,058	$9,862	22.3%

The debt per capita was approximately $388.97, which is substantially below the national average.

See Note 10 for additional information about the City's long-term debt.

Economic Conditions Affecting the City

Since one of the primary revenue streams for the City is sales tax, the City's sales tax revenues are subject to changes in the economy. Since sales taxes are considered an "elastic" revenue stream, tax collections are higher in a flourishing economy and are lower in a depressed economy. The City of Pullman is not considered a retail center, but has experienced higher than average sales tax collections over the past two years. The City of Pullman's sales tax collections have been strong due to high levels of new construction than in previous years. Based on the strong building permit issuances in 2013, and increasing scheduled construction on the Washington State University campus, new construction sales tax collections were close to 2012. A strong increase in retail and wholesale sales tax sectors helped to continue our growth for sales taxes in 2013. The City of Pullman will benefit from increased building at Washington State University on sales taxable projects, as well as, strong growth in single family and apartment complexes. The City of Pullman is expected to continue to face challenges from significant increases to medical insurance premiums.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City's Office of Finance, 325 S.E. Paradise Street, Pullman, WA 99163.

City of Pullman
Statement of Net Position
December 31, 2013

	Primary Government		
	Governmental Activities	**Business-type Activities**	**Total**
ASSETS			
Cash and cash equivalents	$ 10,671,649	$ 9,562,570	$ 20,234,219
Investments	-	1,805,834	1,805,834
Receivables (net of allowance for uncollectibles)	1,097,841	841,831	1,939,672
Due from other government units	296,556	2,145,038	2,441,594
Internal balances	(1,669,295)	1,669,295	-
Inventories	321,130	451,070	772,200
Prepaids	51,348	14,949	66,297
Deferred charges	-	-	-
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	632,514	58,245	690,759
Investments	-	-	-
Intergovernmental receivable	-	-	-
Permanently restricted:			
Investments	-	-	-
Capital assets (net of accumulated depreciation):			
Land	1,306,230	996,638	2,302,868
Buildings and system	3,185,010	14,640,247	17,825,257
Improvements other than buildings	3,558,978	17,459,225	21,018,203
Machinery and equipment	3,095,128	16,826,846	19,921,974
Infrastructure	21,494,175	-	21,494,175
Construction in progress	838,396	11,639,952	12,478,348
Total assets	44,879,660	78,111,740	122,991,400
DEFERRED OUTFLOWS OF RESOURCES	-	-	-
LIABILITIES			
Accounts payable and other current liabilities	340,953	311,668	652,621
Matured long term debt	-	-	-
Custodial deposits	664,423	-	664,423
Taxes payable	-	-	-
Accrued interest payable	-	35,471	35,471
Accrued wages and benefits	952,635	347,481	1,300,116
Compensated absences	548,885	174,743	723,628
Unearned revenue	238,784	26,305	265,089
Liabilities payable from restricted assets	-	58,445	58,445
Long term debt - due within one year	325,583	792,187	1,117,770
Noncurrent liabilities:			
Net OPEB obligation	1,186,565	-	1,186,565
Long term debt - due in more than one year	815,000	10,092,789	10,907,789
Capital leases	32,457	-	32,457
Total liabilities	5,105,285	11,839,089	16,944,374
DEFERRED INFLOWS OF RESOURCES	-	-	-
NET POSITION			
Net investment in capital assets	32,304,877	50,677,932	82,982,809
Restricted for:			
Highways and streets	-	-	-
Culture and recreation	1,956,581	-	1,956,581
Debt service	-	378,364	378,364
Perpetual care:			
Expendable	-	-	-
Nonexpendable	257,616	-	257,616
Other purposes	370,343	-	370,343
Unrestricted	4,884,958	15,216,355	20,101,313
Total net position	$ 39,774,375	$ 66,272,651	$ 106,047,026

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

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City of Pullman
Statement of Activities
For the Year Ended December 31, 2013

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position – Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Position – Primary Government: Business-type Activities	Net (Expense) Revenue and Changes in Net Position – Primary Government: Total
Primary government:							
Governmental activities:							
General government	$ 2,768,381	$ 670,706	$ 415,041	$ -	$ (1,682,634)	$ -	$ (1,682,634)
Public safety	11,035,644	898,890	1,282,590	-	(8,854,164)	-	(8,854,164)
Highways and streets	1,591,526	922,188	813,820	-	144,482	-	144,482
Culture and recreation	5,495,605	1,229,114	379,011	-	(3,887,480)	-	(3,887,480)
Interest on long-term debt	117,939	-	-	-	(117,939)	-	(117,939)
Total governmental activities	21,009,095	3,720,898	2,890,462	-	(14,397,735)	-	(14,397,735)
Business-type activities:							
Utilities	7,657,267	11,573,687	260,542	1,783,460	-	5,960,422	5,960,422
Transit	3,250,830	3,089,190	2,336,760		-	2,175,120	2,175,120
Total business-type activities	10,908,097	14,662,877	2,597,302	1,783,460	-	8,135,542	8,135,542
Total primary government	$ 31,917,192	$ 18,383,775	$ 5,487,764	$ 1,783,460	(14,397,735)	8,135,542	(6,262,193)
General revenues:							
Property taxes					5,427,804	-	5,427,804
Sales taxes					3,928,923	-	3,928,923
Utility taxes					3,655,983	-	3,655,983
Business taxes					337,486	-	337,486
Excise taxes					255,206	-	255,206
Other taxes					838,830	-	838,830
Grants and contributions not restricted to specific programs					-	-	-
Unrestricted investment earnings					100,832	14,177	115,009
Other revenues					23,821	-	23,821
Loss on sale of capital assets					-	-	-
Transfers					207,194	(63,707)	143,487
Total general revenues and transfers					14,776,079	(49,530)	14,726,549
Prior year adjustments					-	-	-
Change in net position					378,344	8,086,012	8,464,356
Prior Period Adjustments					-	(283,829)	(283,829)
Prior year net position change for this statement					-	(1,412,768)	(1,412,768)
Net position - beginning					39,396,031	59,883,236	99,279,267
Net position - ending					$ 39,774,375	$ 66,272,651	$ 106,047,026

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

City of Pullman
Balance Sheet
Governmental Funds
December 31, 2013

	General	Streets	Other Governmental Funds	Total Governmental Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Cash and cash equivalents	$ 3,018,660	$ 3,258,892	$ 2,636,064	$ 8,913,616
Cash with fiscal agent	-	-	-	-
Investments	-	-	-	-
Receivables (net of allowance for uncollectibles)	554,691	113,737	-	668,428
Taxes Receivable	177,459	-	32,757	210,216
Other Current Receivables	271,752	-	-	271,752
Due from other funds	1,406	-	2,652	4,058
Due from other governmental units	241,830	46,835	-	288,665
Inventories	-	-	-	-
Prepaid items	30,834	-	-	30,834
Intergovernmental receivable - restricted	-	-	-	-
Total assets	4,296,632	3,419,464	2,671,473	10,387,569
Deferred outflows of resources	-	-	-	-
Total assets and deferred outflows of resources	$ 4,296,632	$ 3,419,464	$ 2,671,473	$ 10,387,569
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 112,658	$ 71,980	$ 30,054	214,692
Other accrued liabilities	-	-	-	-
Accrued wages and benefits	819,719	32,656	4,465	856,840
Taxes Payable	-	-	-	-
Custodial accounts	18,898	-	-	18,898
Due to other funds	-	-	-	-
Customer deposits	370,089	275,436	-	645,525
Matured bonds payable	-	-	-	-
Unearned revenue	206,028	-	32,756	238,784
Liabilities payable from restricted assets	-	-	-	-
Total liabilities	1,527,392	380,072	67,275	1,974,739
Deferred inflows of resources	-	-	-	-
Fund balances:				
Nonspendable	30,834	-	-	30,834
Restricted	10,926	1,518,927	2,584,540	4,114,393
Committed	266,776	1,294,615	-	1,561,391
Assigned	70,000	225,850	19,658	315,508
Unassigned	2,390,704	-	-	2,390,704
Total fund balances	2,769,240	3,039,392	2,604,198	8,412,830
Total liabilities, deferred inflows of resources and fund balances	$ 4,296,632	$ 3,419,464	$ 2,671,473	

Amounts reported for governmental activities in the 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.	29,244,032
Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	5,031,102
Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(2,913,589)
Net position of governmental activities	$ 39,774,375

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

MCAG: 0820

City of Pullman
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2013

	General	Streets	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	$ 4,585,281	$ -	$ 842,523	$ 5,427,804
Sales	3,928,923	-	-	3,928,923
Utility	2,475,137	1,180,846	-	3,655,983
Business	-	-	337,486	337,486
Excise	-	255,206	-	255,206
Other	838,830	-	-	838,830
Licenses and permits	690,215	555	-	690,770
Intergovernmental	749,971	813,821	28,948	1,592,740
Charges for services	3,622,292	102,024	6,027	3,730,343
Fines	62,222	-	-	62,222
Investment earnings	28,733	284	71,415	100,432
Contributions and donations	252,139	-	15,015	267,154
Facility rentals	72,136	-	-	72,136
Other miscellaneous revenues	83,882	25,166	228	109,276
Total revenues	17,389,761	2,377,902	1,301,642	21,069,305
EXPENDITURES				
Current:				
General government	1,459,480	-	-	1,459,480
Public safety	10,577,333	-	38,392	10,615,725
Highway and streets	-	1,467,232	-	1,467,232
Transportation	-	-	-	-
Economic and physical development	-	-	-	-
Culture and recreation	4,094,289	-	1,175,088	5,269,377
Debt service:				
Principal	-	-	265,000	265,000
Debt issuance	-	-	-	-
Interest	-	-	56,305	56,305
Debt service costs	-	-	603	603
Capital outlay:				
Land	-	-	-	-
Buildings	-	-	-	-
Highway and streets	-	-	-	-
Improvements	-	635,826	16,987	652,813
Total expenditures	16,131,102	2,103,058	1,552,375	19,786,535
Excess (deficiency) of revenues over (under) expenditures	1,258,659	274,844	(250,733)	1,282,770
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	1,000	22,821	-	23,821
Transfers in	-	-	39,992	39,992
Transfers out	(98,095)	(39,610)	(382)	(138,087)
Capital Leases	(61,031)	-	-	(61,031)
Prior year adjustments and change in reserves	-	-	-	-
Total other financing sources and uses	(158,126)	(16,789)	39,610	(135,305)
Net change in fund balances	1,100,533	258,055	(211,123)	1,147,465
Fund balances - beginning	1,668,707	2,781,337	2,815,321	7,265,365
Fund balances - ending	$ 2,769,240	$ 3,039,392	$ 2,604,198	$ 8,412,830

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

City of Pullman
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds
For the Year Ended December 31, 2013

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds	$	1,147,465
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 exceed depreciation in the current period.		21,636
The net effect of various miscellaneous transactions involving changes in fund balance (i.e. prior year adjustments, changes in reserves) is to decrease net position.		300,216
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.		265,000
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.		(1,186,565)
Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.		(169,408)
Change in net position of governmental activities	$	378,344

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

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City of Pullman
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2013

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Taxes:				
Property	$ 4,589,050	$ 4,589,050	$ 4,585,281	$ (3,769)
Sales	4,088,287	4,088,287	3,928,923	(159,364)
Utility	2,375,000	2,375,000	2,475,137	100,137
Other	885,000	885,000	838,830	(46,170)
Licenses and permits	435,234	435,234	690,215	254,981
Intergovernmental	277,932	581,997	749,971	167,974
Charges for services	3,683,948	3,683,948	3,622,292	(61,656)
Fines	84,000	84,000	62,222	(21,778)
Investment earnings	20,000	20,000	28,733	8,733
Contributions and donations	33,500	33,500	252,139	218,639
Facility rentals	67,000	67,000	72,136	5,136
Other miscellaneous revenues	38,000	38,000	83,882	45,882
Total revenues	16,576,951	16,881,016	17,389,761	508,745
EXPENDITURES				
Current:				
General government:				
Council	154,096	176,096	171,694	4,402
Mayor & Supervisor	169,248	169,248	165,583	3,665
Attorney	84,000	84,000	84,000	-
Personnel	102,816	102,816	100,489	2,327
Finance and administration	719,933	719,933	665,525	54,408
Other - unclassified	202,700	283,520	272,189	11,331
Total general government	1,432,793	1,535,613	1,459,480	76,133
Public safety:				
Police	5,625,075	5,776,915	5,488,277	288,638
Fire	4,534,837	4,687,062	4,705,208	(18,146)
Inspection	377,944	421,744	383,848	37,896
Total public safety	10,537,856	10,885,721	10,577,333	308,388
Culture and recreation	4,403,807	4,403,807	4,094,289	309,518
Total expenditures	16,374,456	16,825,141	16,131,102	694,039
Excess of revenues over expenditures	202,495	55,875	1,258,659	1,202,784
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	-	-	1,000	1,000
Transfers in	-	-	-	-
Transfers out	(98,095)	(98,095)	(98,095)	-
Capital leases	(61,031)	(61,031)	(61,031)	-
Prior year adjustments and change in reserves	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing sources and uses	(159,126)	(159,126)	(158,126)	1,000
Net change in fund balances	43,369	(103,251)	1,100,533	1,203,784
Fund balances - beginning	1,668,707	1,668,707	1,668,707	-
Fund balances - ending	$ 1,712,076	$ 1,565,456	$ 2,769,240	$ 1,203,784

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

MCAG: 0820

City of Pullman
Street Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2013

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Taxes:				
Property	$ -	$ -	$ -	$ -
Sales	-	-	-	-
Utility	1,114,000	1,114,000	1,180,846	66,846
Business	-	-	-	-
Excise	150,000	150,000	255,206	105,206
Other	-	-	-	-
Licenses and permits	400	400	555	155
Intergovernmental	858,670	858,670	813,821	(44,849)
Charges for services	100,000	100,000	102,024	2,024
Fines	-	-	-	-
Special assessments	-	-	-	-
Investment earnings	350	350	284	(66)
Contributions and donations	-	-	-	-
Facility rentals	-	-	-	-
Other miscellaneous revenues	5,500	5,500	25,166	19,666
Total revenues	2,228,920	2,228,920	2,377,902	148,982
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Highway and streets	1,807,762	1,807,762	1,467,232	340,530
Transportation	-	-	-	-
Economic and physical development	-	-	-	-
Culture and recreation	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Debt service costs	-	-	-	-
Capital outlay:				
Highway and streets	-	-	-	-
Improvements	1,630,300	1,630,300	635,826	994,474
Total expenditures	3,438,062	3,438,062	2,103,058	1,335,004
Excess (deficiency) of revenues over (under) expenditures	(1,209,142)	(1,209,142)	274,844	1,483,986
OTHER FINANCING SOURCES (USES)				
Proceeds of long-term debt	839,600	839,600	-	(839,600)
Insurance recoveries	-	-	22,821	22,821
Transfers in	-	-	-	-
Transfers out	(50,200)	(50,200)	(39,610)	10,590
Prior year adjustments and change in reserves	-	-	-	-
Total other financing sources and uses	789,400	789,400	(16,789)	(806,189)
Net change in fund balances	(419,742)	(419,742)	258,055	677,797
Fund balances - beginning	2,781,337	2,781,337	2,781,337	-
Fund balances - ending	$ 2,361,595	$ 2,361,595	$ 3,039,392	$ 677,797

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

MCAG: 0820

City of Pullman
Statement of Net Position
Proprietary Funds
December 31, 2013

	Business-type Activities-Enterprise Funds			
	Utility Current Year	Transit Current Year	Totals	Governmental Activities-Internal Service Funds
ASSETS				
Current assets:				
Cash and cash equivalents	$ 9,465,528	$ 97,042	$ 9,562,570	$ 2,390,547
Cash with fiscal agent	-	-	-	-
Investments	1,805,834	-	1,805,834	-
Interest receivable	13,665	-	13,665	-
Accounts receivable	739,818	-	739,818	-
Due from other funds	-	-	-	-
Other current receivable	32	88,316	88,348	14,290
Intergovernmental receivable	1,345,313	799,725	2,145,038	3,833
Inventories	451,070	-	451,070	321,130
Prepaid Items	11,948	3,001	14,949	20,514
Total current assets	13,833,208	988,084	14,821,292	2,750,314
Noncurrent assets:				
Restricted cash, cash equivalents, and investments:				
Customer deposits	58,245	-	58,245	-
Investments	-	-	-	-
Total restricted assets	58,245	-	58,245	-
Deferred charges	-	-	-	-
Capital assets:				
Land	996,638	-	996,638	-
Buildings and system	17,503,754	2,092,737	19,596,491	1,198,966
Improvements other than buildings	24,477,736	139,665	24,617,401	-
Machinery and equipment	23,046,195	8,172,817	31,219,012	6,126,909
Construction in progress	11,639,952	-	11,639,952	473,720
Less accumulated depreciation	(23,071,308)	(3,435,278)	(26,506,586)	(3,565,709)
Total capital assets (net of accumulated depreciation)	54,592,967	6,969,941	61,562,908	4,233,886
Total noncurrent assets	54,651,212	6,969,941	61,621,153	4,233,886
Total assets	68,484,420	7,958,025	76,442,445	6,984,200
DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-

MCAG: 0820

City of Pullman
Statement of Net Position
Proprietary Funds
December 31, 2013

	Business-type Activities-Enterprise Funds			
	Utility Current Year	**Transit Current Year**	**Totals**	**Governmental Activities-Internal Service Funds**
LIABILITIES				
Current liabilities:				
Accounts payable	287,308	24,360	311,668	125,973
Matured long term debt	-	-	-	-
Compensated absences	105,231	69,512	174,743	42,396
Accrued wages and benefits	173,070	174,411	347,481	95,795
Revenues in advance	26,305	-	26,305	-
Accrued interest payable	35,471	-	35,471	-
Other accrued liabilities	-	-	-	-
Long term debt - current portion	792,187	-	792,187	19,351
Capital leases payable - current	-	-	-	-
Total current liabilities	1,419,572	268,283	1,687,855	283,515
Current liabilities payable from restricted assets:				
Customer deposits payable	58,445	-	58,445	288
Revenue bonds payable	-	-	-	-
Accrued interest payable	-	-	-	-
Total current liabilities payable from restricted assets	58,445	-	58,445	288
Noncurrent liabilities:				
Long term debt	7,912,789	-	7,912,789	-
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	2,180,000	-	2,180,000	-
Capital leases payable	-	-	-	-
Due to other governments	-	-	-	-
Total noncurrent liabilities	10,092,789	-	10,092,789	-
Total liabilities	11,570,806	268,283	11,839,089	283,803
DEFERRED INFLOWS OF RESOURCES	-	-	-	-
NET POSITION				
Net investment in capital assets	43,707,991	6,969,941	50,677,932	4,214,535
Restricted for debt service	378,364	-	378,364	-
Unrestricted	12,827,259	719,801	13,547,060	2,485,862
Total net position	$ 56,913,614	$ 7,689,742	64,603,356	$ 6,700,397

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	1,669,295
Net position of business-type activities	$ 66,272,651

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

MCAG: 0820

City of Pullman
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2013

	Business-type Activities-Enterprise Funds			
	Utility Current Year	Transit Current Year	Totals	Governmental Activities-Internal Service Funds
Operating revenues:				
Charges for sales and services				
Water and Sewer sales	$ 9,367,185	$ -	$ 9,367,185	$ -
Sewer charges pledged as security for revenue bonds	-	-	-	-
Tap fees - unpledged	873,536	-	873,536	-
Transit sales	-	1,900,446	1,900,446	-
Other services	1,092,743	-	1,092,743	4,127,712
Total operating revenues	11,333,464	1,900,446	13,233,910	4,127,712
Operating expenses:				
Costs of sales and services	6,583,577	3,493,054	10,076,631	2,542,153
Administration	-	302,867	302,867	525,398
Depreciation	1,660,870	429,795	2,090,665	412,371
Total operating expenses	8,244,447	4,225,716	12,470,163	3,479,922
Operating income	3,089,017	(2,325,270)	763,747	647,790
Nonoperating revenues (expenses):				
Intergovernmental	260,542	3,517,545	3,778,087	691
Investment earnings	14,177	-	14,177	400
Interest expense	(106,231)	-	(106,231)	(2,211)
Gain (Loss) on sale of fixed assets	-	(998)	(998)	7,319
Other nonoperating revenues (expenses)	240,223	7,959	248,182	67,461
Total nonoperating revenue (expenses)	408,711	3,524,506	3,933,217	73,660
Income before contributions and transfers	3,497,728	1,199,236	4,696,964	721,450
Capital contributions	1,783,460		1,783,460	-
Prior year adjustments	(283,829)	-	(283,829)	-
Transfers in	-	-	-	305,289
Transfers out	(63,707)	-	(63,707)	-
Change in net position	4,933,652	1,199,236	6,132,888	1,026,739
Total net position - beginning	51,979,962	6,490,506		5,673,658
Total net position - ending	$ 56,913,614	$ 7,689,742		$ 6,700,397
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			1,669,295	
Change in net position of business-type activities			$ 7,802,183	

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

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City of Pullman
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2013

	Business-type Activities-Enterprise Funds			
	Utility Current Year	Transit Current Year	Totals	Governmental Activities-Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	$ 16,443,734	$ 1,498,979	$ 17,942,713	
Receipts from interfund services provided	-	-	-	$ 4,623,229
Payments to suppliers and interfund services	(9,729,426)	(1,564,009)	(11,293,435)	(2,552,063)
Payments to employees	(2,158,197)	(2,221,473)	(4,379,670)	(1,069,479)
Net cash provided (used) by operating activities	4,556,111	(2,286,503)	2,269,608	1,001,687
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	(63,707)	-	(63,707)	305,289
Transfers from other funds	-	-	-	-
Financing available for operating purposes	-	-	-	-
Taxes available for operating purposes	-	1,180,846	1,180,846	-
Proceeds from nonoperating	500,765	2,344,660	2,845,425	68,152
Net cash provided (used) by noncapital and related financing activities	437,058	3,525,506	3,962,564	373,441
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital debt	4,492,453	-	4,492,453	-
Acquisition and construction of capital assets	(5,740,318)	(1,991,135)	(7,731,453)	(799,873)
Principal paid on capital debt	(782,187)	-	(782,187)	(2,211)
Interest paid on capital debt	(106,231)	-	(106,231)	(59,712)
Proceeds from sales of capital assets	-	4,000	4,000	24,765
Net cash provided (used) by capital and related financing activities	(2,136,283)	(1,987,135)	(4,123,418)	(837,031)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	500,000	-	500,000	-
Purchases of investments	(1,760,000)	-	(1,760,000)	-
Premiums and discounts	(34,204)	-	(34,204)	-
Interest and dividends received	14,177	-	14,177	400
Net cash provided (used) by investing activities	(1,280,027)	-	(1,280,027)	400
Net increase in cash and cash equivalents	1,576,859	(748,132)	828,727	538,497
Cash and cash equivalents, January 1	7,946,914	845,174	8,792,088	1,852,050
Cash and cash equivalents, December 31	$ 9,523,773	$ 97,042	$ 9,620,815	$ 2,390,547

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City of Pullman
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2013

	Business-type Activities-Enterprise Funds			
	Utility Current Year	Transit Current Year	Totals	Governmental Activities-Internal Service Funds
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	$ 3,089,017	$ (2,325,270)	$ 763,747	$ 647,790
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	1,660,870	429,795	2,090,665	412,371
Loss (gain) on sale of equipment	-	-	-	-
Prior period adjustments	-	-	-	-
(Increase) decrease in accounts receivable	(6,162)	-	(6,162)	-
(Increase) decrease in current receivable	2,637	(8,558)	(5,921)	(9,740)
(Increase) decrease in intergovernmental receivable	181,190	(415,639)	(234,449)	(676)
(Increase) decrease in interest receivable	(7,366)	-	(7,366)	-
(Increase) decrease in inventories	(35,230)	-	(35,230)	(70,120)
(Increase) decrease in prepaid items	300	9,825	10,125	173
Increase (decrease) in customer deposits	-	-	-	-
Increase (decrease) in accounts payable	(312,589)	7,889	(304,700)	3,240
Increase (decrease) in interest payable	(2,655)	-	(2,655)	-
Increase (decrease) in customer deposits	12,025	-	12,025	-
Increase (decrease) in long term obligations	-	-	-	-
Increase (decrease) in other accrued liabilities	-	-	-	-
Increase (decrease) in advance revenues	(2,649)	-	(2,649)	-
Increase (decrease) in compensated absences payable	(9,773)	7,497	(2,276)	2,208
Increase (decrease) in intergovernmental payables	-	-	-	-
Increase (decrease) in accrued wages and benefits	(13,504)	7,958	(5,546)	16,441
Total adjustments	1,467,094	38,767	1,505,861	353,897
Net cash provided (used) by operating activities	$ 4,556,111	$ (2,286,503)	$ 2,269,608	$ 1,001,687

NON-CASH ACTIVITIES:

Assets contributed from developers and customers $ 1,783,460

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

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City of Pullman
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2013

	Lawson Investment Trust Fund	Airport Agency Fund
ASSETS		
Cash	$ 7,702	$ 163,890
Receivables	-	517,900
Interest receivable	17,180	-
Investments, at fair value:		
U.S. Government securities	2,967,566	-
Total investments	2,967,566	-
Total assets	2,992,448	681,790
DEFERRED OUTFLOWS OF RESOURC	-	-
LIABILITIES		
Accounts payable	-	-
Custodial accounts	-	681,790
Total liabilities	-	681,790
DEFERRED INFLOWS OF RESOURCES	-	-
NET POSITION		
Held in trust for pension benefits and other purposes	$ 2,992,448	$ -

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

City of Pullman
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 2013

	Lawson Gardens Investment Trust Fund
ADDITIONS	
Contributions:	
Employer	$ -
Plan members	-
Private donations	576
Other sources	-
Total contributions	576
Investment earnings:	
Interest	66,304
Net increase (decrease) in the fair value of investments	(162,582)
Total investment earnings	(96,278)
Less investment expense	-
Net investment earnings	(96,278)
Total additions	(95,702)
DEDUCTIONS	
Distribution of earnings	(70,392)
Prior year refunds of contributions	-
Total deductions	(70,392)
Change in net position	(166,094)
Net position - beginning	3,158,542
Net position - ending	$ 2,992,448

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Pullman 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.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* (GASB #34). This Statement provides for the most significant change in financial reporting in over twenty years and was scheduled for a phased implementation (based on size of government) starting with fiscal years ending 2003 (for Phase 2 governments). As part of the Statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc.). As permitted by GASB #34, the City of Pullman delayed the implementation of the infrastructure reporting requirement to the fiscal year ending in 2007. The City implemented the basic model for fiscal year 2003 and has implemented the infrastructure-related portion for the fiscal year ending 2007. The Financial Statements and the Management Discussion and Analysis include the required infrastructure reporting and related adjustments and entries.

The City of Pullman has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Reporting and Fund Type Definitions*, during 2011. The City's fund balance classification policies and procedures are as follows:

The Nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balances have constraints placed on the use of resources that are either(a) externally imposed by creditors, grantors, donors or laws or regulations of other governments or (b) imposed by law through constitution provisions or enabling legislation.

Committed fund balances can only be used for specific purposes pursuant to constraints imposed by formal action of the City of Pullman Council (i.e., a resolution or ordinance), the City's highest level of decision-making authority. Commitments may be changed or lifted only by taking the same formal action that imposed the constraint originally.

Assigned fund balances are constrained by intent to be used for specific purposes, but are neither restricted nor committed. Informal Council action is authorized to assign unexpended funds.

Unassigned fund balance is the residual classification for the General Fund. Other governmental cannot report a positive unassigned balance but can report a negative unassigned fund if expenditures incurred for specific purposes exceed the amount restricted or committed to those purposes.

For classification of governmental fund balances, the City considers an expenditure to be made from the most restrictive account resource (i.e., restricted, committed, assigned and unassigned in that order) when more than one fund balance classification is available for use.

Implementation of GASB Statement No. 63*, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* – This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Government*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* – This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concept Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the change in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

A. Reporting Entity

The City of Pullman was incorporated on April 11, 1888, and operates under the laws of the state of Washington applicable to a non-charter code City with a mayor-council form of government. As required by the generally accepted accounting principles, the financial statements present the City of Pullman - the primary government.

The Pullman-Moscow Airport provides airport services to the region surrounding the City of Pullman. This activity is neither directly controlled nor dependent upon the City. It is directed by a board of directors composed of representatives from the City of Pullman, Washington State University, the City of Moscow, Idaho and Latah County, Idaho, and derives some financial support from each of these entities and the Port of Whitman. It is not a separate taxing authority. The interlocal agreement establishing this activity directs the City of Pullman to maintain the financial records and reports as required by the laws of the State of Washington. The combined financial statements therefore also include the Pullman-Moscow Airport Agency fund. The Pullman-Moscow Airport also issues its own separate and distinct financial statements.

Blended Component Unit

The elected 7-member council of the City of Pullman serves in an ex-officio capacity as the board of metropolitan park commissioners for the City of Pullman Metropolitan Park District. Although the District is legally separated from the City, the District is reported as if it were part of primary government because its sole purpose is to provide for management, maintenance and improvement of the parks and recreational facilities within the City of Pullman boundaries.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government. For the most part, the effects of interfund activity have 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 how the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is 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 resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Sales taxes, utility taxes, and other derived tax revenues are accrued in the period in which the underlying exchange transaction occurs. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. The City considers property taxes as available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as current fiscal period revenues. 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 reports the following major governmental funds:

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

The **Arterial and Street Funds** (presented together as one major fund) are responsible for the maintenance of all city streets, street lighting, and bridges.

The City reports the following major proprietary funds:

The **Utility and Utility Capital Projects Funds** account for all revenues derived from and expenses incurred in the operation and construction of the water distribution system. The fund also accounts for all revenue derived from and expenses incurred in the operation and construction of the wastewater treatment plant and the sewer system of the City.

The **Transit Fund** accounts for all revenues derived from and expenses incurred in the operation of the public transit system.

Additionally, the City reports the following fund types:

Internal service funds account for the equipment rental division and information systems management, and government building maintenance provided to other departments of the City on a cost reimbursement basis.

The private purpose trust fund accounts for contributions and donations from private sources to be expended for improvements and maintenance of the Lawson Gardens Park.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's sewer and water functions and various other functions of the City. 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 or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utility enterprise fund and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise fund 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 nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Budgets and Budgetary Accounting

1. Scope of Budget

Annual appropriated budgets are adopted for all governmental fund types and for all proprietary funds on the modified accrual basis of accounting. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers broken down by department for all budgeted funds, but the financial statements include budgetary comparisons for only the two major Governmental Funds: General and Arterial/Streets. NCGA Statement 1 does not require, and the financial statements do not present, budgetary comparisons for proprietary fund types.

Annual appropriated budgets are adopted at the fund level broken down by department, except in the General Fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual department functions and activities by object class.

Appropriations for general and special revenue funds lapse at year-end.

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

2. Procedures for Adopting the Original Budget

The City's budget procedures are mandated by RCW 35A.33. The steps in the budget process are as follows:

a. Prior to November 1 the mayor submits a proposed budget to the city council. This budget is based on priorities established by the council and estimates provided by City departments during preceding months and balanced with revenue estimates made by the Finance Director.

b. The council conducts public hearings on the proposed budget in November and December.

c. The council makes its adjustments to the proposed budget and adopts by ordinance a final balanced budget no later than December 31.

d. Within 30 days of adoption, the final budget is available to the public.

3. Amending the Budget

The mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the city council.

When the city council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund broken down by department it may do so by ordinance approved by one more than the majority after holding a public hearing.

The budget amounts shown in the financial statements are the original and 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.

4. Excess of Expenditures Over Appropriations

The 2013 Transit Fund had $11,131 worth of expenditures in excess of appropriations. Information Systems Fund had $1,174 worth of expenditures in excess of appropriations. Downtown Riverwalk Fund had $227 worth of expenditures in excess of appropriations. These expenditures were funded by cash reserves.

E. Assets, Liabilities and Equities

1. Cash and Equivalents

It is the City's policy to invest all temporary cash surpluses. On December 31, 2013, the finance director was holding $10,133,945 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and equivalents in various funds. The interest on these investments 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 three months or less when purchased to be cash equivalents.

2. Temporary Investments (See Note 4)

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Note 5). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

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 accounts from private individuals or organizations for goods and services rendered. (See Note 1-C).

4. Amounts Due to and from Other Funds; Interfund Loans and Advances Receivable

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the 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 15.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

5. Amounts Due to and from Other Governmental Units

These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services.

6. 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 LIFO method.

7. 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 liabilities is shown as Payables from Restricted Assets. Specific debt service reserve requirements, if any, are described in Note 10.

The restricted assets of the Governmental funds composed of the following:

Cash and Investments – Temporary Restrictions	$632,514
Cash and Investments – for Construction	$ 0
Cash and Investments – Permanent Restriction for Pension obligations (Fund 615)	$ 0
Total Restricted Assets	$632,514

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

Cash and Investments – Customer Deposits	$ 58,245
Total Restricted Assets	$ 58,245

8. Capital Assets (See Note 6)

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of 1 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.

Pursuant to GASB Statement No. 34, an extended period of deferral (FY 2007 for Phase 2 governments) was available for the requirement to record and depreciate infrastructure assets acquired before the implementation date. The City fully met this requirement during fiscal year 2007. Significant adjustments have occurred relating to this requirement. This category has become the largest asset class of the City and has historically not been reflected nor a measure of its consumption charged. Infrastructure assets include roads, bridges, traffic signals, sidewalks, etc.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

	Years
Buildings and Improvements	10-60
Infrastructure	40
Light/Heavy Trans. Equip.	5-10
Other Equipment	2-20
Heavy Equipment	10
Water Mains	60
Water Hydrants	50-60
Sewer Interceptors	100

Property, plant and equipment assets within the governmental activity funds except the equipment rental division fund are depreciated for a full year regardless of the month the asset was put in service. Property, plant and equipment assets within the business-type activity funds and the equipment rental division fund are depreciated partial years depending on the month the asset was put in service.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

9. Other Property and Investments (See Note 4)

10. Other Assets and Debits

These accounts reflect future resources needed to retire general long-term debt principal and amounts currently available in debt service or other funds to retire general long-term debt.

11. Custodial Accounts

This account reflects the liability for net monetary assets being held by the City in its trustee or agency capacity.

12. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. Vacation pay, which may be accumulated up to 240 hours, is payable upon resignation, retirement or death. Sick leave may accumulate up to 800 hours. Outstanding sick leave is not payable upon resignation, retirement or death.

13. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

14. Long-term Debt (See Note 10)

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

15. Unearned Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met. (See Note 1-C)

16. Other Credits

This account is used to account for gains that will be amortized over succeeding fiscal periods in proprietary funds.

17. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

F. Other Significant Accounting Practices

1. Budgeting, Accounting and Reporting System (BARS)

The State of Washington's Office of State Auditor was granted authority pursuant to the Revised Code of Washington (RCW 43.09.200 and 43.09.230) to prescribe the Budgeting, Accounting and Reporting System (BARS) manual. The purpose of this manual is to provide uniformity in budgeting, accounting and reporting by all local government entities within the State of Washington.

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

A. Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net 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. The reconciliation is as follows:

1. Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds – net effect $29,244,032.
2. Internal service funds are included in governmental activities in the statement of net position – net effect $5,031,102.
3. Long term liabilities are not reported in the funds-net effect $(2,913,589).

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

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

1. Net change in fund balances – total governmental funds – net effect $1,147,465.
2. Governmental funds report capital outlays as expenditures (depreciation in current period) – net effect $21,636.
3. The net effect of various miscellaneous transactions involving changes in fund balance – net effect $300,216.
4. The issuance of long term debt – net effect $265,000.
5. Some expenses reported in the statement of activities do not require the use of current financial resources – net effect $(1,186,565).
6. The net revenue of certain activities of internal service funds is reported with governmental activities – net effect $(169,408).

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 4 - DEPOSITS AND INVESTMENTS

DEPOSITS

The City'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's funds are obligations of the U.S. Government, U.S. agency issues, general obligations of Washington State municipalities, the State Treasurer's Investment Pool, or certificates of deposit with Washington State banks and savings and loan institutions. All investments are stated at cost plus accrued interest which approximates fair value, as it is the intent of the City to hold all investments until their stated maturities. Also, the interest earned on investments owned by the Cemetery Care Fund is credited to the General Fund, as the operation and maintenance expenditures of the City's cemeteries are included in the General Fund or the Cemetery Expansion Fund for cemetery capital improvements. Other property is shown on the combined balance sheet at cost.

	Fair Value City Owned Investments	**Total**
Repurchase Agreements	$ -	$ -
U.S. Government Securities	1,805,834	1,805,834
Bankers' Acceptances	-	-
WA Municipal Obligations	-	-
TOTAL	**$1,805,834**	**$1,805,834**

During the period covered by this financial statement, there were no exceptions to the City's investment policy, nor did the City use reverse repurchase agreements. During this period, the City did not use, hold nor sell any derivatives or similar instruments, nor did the City participate in any securities lending transactions. There were no sales of securities at other than maturity or call dates that resulted in realized gains or losses.

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the City would not be able to recover the value of the investment or collateral securities. Of the City’s total position of $1,805,834 in investments, $0 is exposed to custodial credit risk because the investments are held by the City’s brokerage firm, which is also the counterparty in those particular securities.

NOTE 5 - PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed after the end of each month.

Property Tax Calendar

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

Property taxes are recorded as a receivable when levied, offset by unearned revenue. During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections to be distributed by the County Treasurer in January. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The City may levy up to $3.60 per $1,000 of assessed valuation for general governmental services. The Washington State Constitution and Washington State law in RCW 84.55.010 limit the levy rate.

For 2013 the City levied the following property taxes on an assessed value of $1,365,359,174 (The special levies identified in the table were approved by the voters and are not subject to the limitations listed above.)

Purpose of Levy	Levy Rate per $1,000	Total Levy Amount
General Government	$ 2.9510	$4,029,191
EMS Levy	0.4100	559,857
Special G.O. Bond Levy	0.2082	283,100
TOTALS	**$ 3.5692**	**$4,872,148**

NOTE 6 - CAPITAL ASSETS

A summary of changes in capital assets as of December 31, 2013 follows:

	Balance 1/1/2013	Increases	Decreases	Balance 12/31/2013
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	$1,234,830	$71,400	$ -	$1,306,230
Construction In Progress	1,526,576	942,942	1,631,122	838,396
Total Capital Assets, Not Being Depreciated:	2,761,406	1,014,342	1,631,122	2,144,626
Capital Assets, Being Depreciated:				
Buildings	6,362,271	-	-	6,362,271
Other Improvements	5,416,610	203,240	-	5,619,850
Machinery and Equipment	8,309,912	651,064	313,976	8,647,000
Infrastructure	28,293,207	1,829,444	-	30,122,651
Total Capital Assets, Being Depreciated:	48,382,000	2,683,748	313,976	50,751,772
Less Accumulated Depreciation For:				
Buildings	(3,040,266)	(136,995)	-	(3,177,261)
Other Improvements	(1,870,653)	(190,219)	-	(2,060,872)
Machinery and Equipment	(5,190,724)	(633,305)	(272,157)	(5,551,872)
Infrastructure	(7,875,784)	(752,692)	-	(8,628,476)
Total Accumulated Depreciation	(17,977,427)	(1,713,211)	(272,157)	(19,418,481)
Total Capital Assets, Being Depreciated, Net:	30,404,573	970,537	41,819	31,333,291
Governmental Activities Capital Assets, Net:	**$33,165,979**	**$1,984,879**	**$1,672,941**	**$33,477,917**

	Balance 1/1/2013	Increases	Decreases	Balance 12/31/2013
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	$996,638	$ -	$ -	$996,638
Construction In Progress	9,300,354	9,514,911	7,175,313	11,639,952
Total Capital Assets, Not Being Depreciated:	10,296,992	9,514,911	7,175,313	12,636,590
Capital Assets, Being Depreciated:				
Plant in Service **	68,591,398	6,891,485	49,979	75,432,904
Total Capital Assets, Being Depreciated:	68,591,398	6,891,485	49,979	75,432,904
Less Accumulated Depreciation For:				
Plant in Service **	(24,460,901)	(2,090,665)	(44,980)	(26,506,586)
Total Accumulated Depreciation	(24,460,901)	(2,090,665)	(44,980)	(26,506,586)
Total Capital Assets, Being Depreciated, Net:	44,130,497	4,800,820	4,999	48,926,318
Business-Type Activities Capital Assets, Net:	**$54,427,489**	**$14,315,731**	**$7,180,312**	**$61,562,908**

Governmental Activities:	
General Government	542,408
Safety	212,173
Transportation	755,770
Culture and Recreation	202,860
Total Depreciation – Governmental Activities	$1,713,211
Business-Type Activities:	
Water and Sewer	$1,624,913
Stormwater	35,957
Transit	429,795
Total Depreciation – Business-Type Activities	$2,090,665

**** The caption, Plant in Service, consists of Buildings and system, Improvements other than buildings and Machinery and equipment**.

NOTE 7 - PENSION PLANS

Substantially all City of Pullman 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 defined benefit public employee 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 from the Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers,* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

Plan Description

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

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

PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees or August 31, 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 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with 5 years of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance is granted at age 66 based upon years of service times the cost-of-living amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may also elect to receive an option cost-of-living amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced 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 three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. 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 of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or they may retire at age 55 with 10 years of service. Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2. Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

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

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 two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one percent of the AFC per year of service.

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

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

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

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 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 2,304 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date available for the plans at June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Non-vested	44,273
Total	**263,347**

Funding Policy

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

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

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2013, were:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer	9.21%*	9.21%*	9.21%*
Employee	6.00%	4.92%	5% to 15%

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

Both the City of Pullman and the employees made the required contributions. The City of Pullman's required contributions for the years ended December 31, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$27,917	$460,016	$82,027
2012	$32,880	$388,292	$70,712
2011	$27,956	$321,304	$53,470
2010	$24,293	$278,580	$55,828

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

Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement officers, firefighters and, as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception.

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

LEOFF defined 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. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

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 the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten 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 no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

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

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

LEOFF Plan 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 allowance.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of two percent of the FAS per year of service. The FAS is based on the highest consecutive 60 months. Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. 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 three 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 two 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 three percent for each year prior to age 53. A catastrophic disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

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

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least ten percent of FAS and two percent per year of service beyond five years. The first ten 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 servicing in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may request service credit on behalf of the deceased member.

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

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

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

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

There are 425 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date available for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	10,189
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	689
Active Plan Members Vested	14,273
Active Plan Members Non-vested	2,633
Total	**27,784**

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, were as follows:

	LEOFF Plan 1	**LEOFF Plan 2**
Employer	0.18*	5.23%*
Employee	0.00%	8.41%
State	N/A	3.36%

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

Both the City of Pullman and the employees made the required contributions. The City of Pullman's required contributions for the years ended December 31 were:

	LEOFF Plan 1	**LEOFF Plan 2**
2013	$122	$243,949
2012	$110	$240,090
2011	$259	$233,596
2010	$354	$225,693

C. Other Retirement Systems - Volunteer Fire Fighters' Relief and Pension Fund

The Volunteer Fire Fighters' Relief and Pension Fund is a cost-sharing multiple-employer retirement system that was created by the Legislature in 1945 under Chapter 41.16 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 contribution upon termination.

D. Other Local Government Pension Systems - Firemen's Pension Fund

The City is also the administrator of a pension retirement system called the Firemen's Pension Fund. This system is shown as a trust fund in the financial reports of the City.

As of December 31, 2013, there were a total of two individuals covered by this system one of whom is still employed and one is retired.

The most recent actuarial study of the system was done by Milliman & Robertson, Inc. to determine the funding requirements as of January 1, 2002. As of this date, the value of assets valued at market was $339,000 and the actuarial present value of future benefits was $144,000, leaving an unfunded pension benefit obligation of $0.

Since 1975 the City has not had any actuarially determined unfunded pension obligation under the Firemen's Pension Fund.

NOTE 8 - RISK MANAGEMENT

The city of Pullman is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (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 162 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 re-insured 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 machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to $750,000, for all perils other than flood an earthquake, and insured above that amount by the purchase of insurance.

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

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

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

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

The City of Pullman separately purchases commercial standard property insurance coverage for building and personal property; automobile physical damage, inland marine. Boiler and machinery coverage is also purchased. Various deductibles apply by type of coverage.

There were no significant reductions in insurance coverage from the previous year. The settlements have not exceeded coverage for each of the past three fiscal years

NOTE 9 - SHORT-TERM DEBT

The City had no short-term debt.

NOTE 10 - LONG-TERM DEBT

A. Long-Term Debt

The City issues general obligation and revenue bonds to finance the acquisition or construction of major capital assets. Bonded indebtedness has also been entered into in prior years to advance refund general obligation and revenue bonds. General obligation bonds have been issued for general government and business-type activities and are being repaid from the applicable resources. Revenue bonds are repaid by proprietary fund revenues. The City is also liable for State of Washington Public Works Trust Fund Loans that were entered into for the purchase of infrastructure improvements and a State of Washington Local Option Capital Asset Lending Program loan for the purchase of fire equipment. These notes are considered obligations of the general government, and are being repaid, with general governmental or proprietary fund revenues, as appropriate.

In proprietary and similar trust 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.

DEBT
OUTSTANDING
December 31, 2013

General Obligation Bonds and Notes:

2005: $300,000 G.O. Bonds, maturing serially to 2015; interest rates from 3.25 percent to 4.20 percent; Financed by property tax levy to construct Wawawaii Pedestrian Path and road improvement on Terre View Drive.	70,000
2007: $2,240,000 General Obligation Bonds maturing serially to 2017; interest rates from 4.00 percent to 5.00 percent; approved by voters as Proposition No. 1 on November 7, 2006 for parks, paths, and pedestrian improvements.	1,020,000

Revenue Bonds and Loans:

2009:$2,685,000 Water and Sewer Revenue Bond; annual installments until 2029 at various rates between 3.00 and 4.75 percent; proceeds for construction of Airport Water Line/Well. Repayments from water/sewer revenues.	2,290,000
2005: $697,543 State of Washington Public Works Trust Fund Loan; annual installments until 2015 at 0.50 percent; proceeds for design of wastewater treatment plant digester. Repayment from water/sewer revenues.	155,009
2005: $1,816,400 State of Washington Public Works Trust Fund Loan; annual installments until 2015 at 0.50 percent; proceeds for construction of wastewater treatment plant digester. Repayment from water/sewer revenues.	475,344
2005: $595,000 State of Washington Public Works Trust Fund Loan; annual installments until 2015 at 0.50 percent; proceeds for construction of Water Well #8. Repayment from water/sewer revenues.	271,528
2005: $526,510 State of Washington Local Option Capital Asset Lending (LOCAL) Program Loan; annual installments until 2014 at 3.08 percent and 3.57 percent; proceeds for the purchase of a new fire ladder truck. Repayment from General Fund revenues.	19,351
2006: $1,776,500 State of Washington Public Works Trust Fund Loan; annual installments until 2016 at 0.50 percent; proceeds for construction of wastewater treatment plant digester. Repayment from water/sewer revenues.	632,238
2006: $90,000 State of Washington Public Works Trust Fund Loan; annual installments until 2014 at 0.00 percent; proceeds for the general sewer plan update. Repayment from water/sewer revenues.	20,500
2012: $7,040,357 State of Washington Department of Ecology Water Pollution Control Revolving Fund Loan; annual installments start September 2015 until 2024 at 2.60%; proceeds for secondary process improvements project. Repayment from water/sewer revenues.	7,040,357

At December 31, 2013, the City has $0 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain $0 in sinking funds and $410,000 reserves as required by bond indentures.

The annual debt service requirements to maturity for all long-term debt including Capital Leases are as follows:

Year Ending	Governmental Activities		Business-Type Activities	
December 31	Principal	Interest	Principal	Interest
2014	$325,583	$49,247	$792,187	$102,578
2015	317,457	36,642	1,397,222	279,019
2016	260,000	23,900	962,545	256,147
2017	270,000	13,500	778,486	234,831
2018	-	-	795,607	213,210
2019-2023	-	-	4,335,835	716,276
2024-2028	-	-	1,628,094	186,670
2029-2033	-	-	195,000	9,263
TOTALS	**$1,173,040**	**$123,289**	**$10,884,976**	**$1,997,994**

B. Refunded Debt

None.

C. Conduit Debt

None.

NOTE 11 - LEASES

A. Operating Leases

The City had no operating leases.

B. Capital Leases

The City had two capital leases. Narrow Band radios were leased for Fire, matures 2015. Narrow Band radios were leased for Police, matures 2015.

The annual Payment requirements for all Capital Leases are as follows:

Year Ending December 31	Payment	Principal	Interest	Balance
2013				$63,689
2014	$33,729	$31,232	$2,497	$32,457
2015	33,729	32,457	1,272	$(0)
TOTALS	$67,458	$63,689	$3,769	

The assets had a cost net of depreciation of $341,103 at December 31, 2013 and are included in the Machinery and Equipment category of Capital Assets.

NOTE 12 - CHANGES TO LONG-TERM LIABILITIES

During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

	Balance 1/1/2013	Additions	Reductions	Balance 12/31/2013	Due Within One Year
Governmental Activities:					
General Obligation Bonds	$1,355,000	$ -	$265,000	$1,090,000	$275,000
Special Assessment Debt	-	-	-	-	-
Government, Bank, and Other Loans	79,063	-	59,712	19,351	19,351
Capital Leases	119,069	-	55,380	63,689	31,232
Claims and Judgments	-	-	-	-	-
Compensated Absences	511,802	37,575	492	548,885	-
Governmental Activities Long-Term Liabilities	$2,064,934	$37,575	$380,584	$1,721,925	$325,583
Business-Type Activities:					
Bonds:					
General Obligation Bonds	$ -	$ -	$ -	$ -	$ -
Revenue Bonds	2,390,000	-	100,000	2,290,000	110,000
Less Deferred amounts:					
For Issuance Premiums (Discounts)	-	-	-	-	-
Special Assessment Debt	-	-	-	-	-
Government, Bank, and Other Loans	5,918,786	3,358,377	682,187	8,594,976	682,187
Capital Leases	-	-	-	-	-
Claims and Judgments	-	-	-	-	-
Compensated Absences	177,019	7,695	9,971	174,743	-
Business-Type Activities Long-Term Liabilities	$8,485,805	$3,366,072	$792,158	$11,059,719	$792,187

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end $42,396 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

NOTE 13 - CONTINGENCIES AND LITIGATION

The City has recorded in its financial statements all material liabilities, including any estimates 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, insurance policies are adequate to pay all known or pending claims except the claim described below.

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. City management believes that such disallowances, if any, will be immaterial.

On Jan 4th, 2010 the City as well as several other cities in Washington received a Petition for Refund, from Verizon Northwest dated December 31, 2009, in the amount of $187,250 for utility taxes paid on DSL service from January 1, 2005 through June 30, 2008. There were no supporting documents for the refund amount. No suit has been filed. Management feels that the claim is not substantiated, and thus there is no way at present to determine the validity or dollar amount of a potential refund. If the claimant's petition is successful, 50% of the claim would be charged to the General Fund, with the remaining amount evenly split between the Street and Transit Funds. Due to the uncertainty, validity and dollar amount of any potential judgment in favor of the Petitioner, there have been no adjustments made to the records of these funds.

On November 15, 2010 the City received a request for refund of internet access charges from AT&T Mobility on behalf of Cingular Wireless. The DVD sent with the request showed an amount owing of $107,243. A review of the zip codes reduced this amount down to $85,280. However, the claim period could exceed statute of limitations. As such there was no way to determine the dollar amount. Management feels that the claim is not substantiated, and thus there is no way at present to determine the validity or dollar amount of a potential refund. If the claimant's petition is successful, 50% of the claim would be charged to the General Fund, with the remaining amount evenly split between the Street and Transit Funds. Due to the uncertainty, validity and dollar amount of any potential judgment in favor of the Petitioner, there have been no adjustments made to the records of these funds. On April 26, 2012 suit was filed by At&T against Pullman and 121 other Washington cities. As of April 25, 2014 the case is waiting an expedited hearing before the Court of Appeals, Division 1. A decision from that court is expected this summer. Pending their ruling, decisions will be made as to how to proceed with the case.

On November 22, 2010 individual claims totally $2,500,000 were filed with the city by seven employees alleging employment discrimination, retaliation, various tort claims and civil rights violations. Subsequently, the suit has been filed in Federal Court, and the city served on June 28, 2011. The jury awarded $1,000,800 to the plaintiffs at trial on April 2, 2013. The plaintiffs have appealed the granting of summary judgment that dismissed all their claims but two. They also requested lawyer fees and costs amounting to $158,000. The City filed a renewed judgment as a matter of law, which was granted, setting aside the jury award. The plaintiffs appealed and the case is pending before a panel of the Ninth Circuit Court of Appeals. Management feels the claims are unsubstantiated and it will prevail. Due to the uncertainty of the litigation, monetary damages and requirements for modifications, no adjustments have been made to the records of this fund. All the City's costs and any judgment will be covered by insurance.

In July 2013 Mr. Anderson filed a suit for claims of $1.7 million. In late 2011, the plaintiff was riding a bicycle under snowy/icy conditions, lost traction and slipped under a City of Pullman Transit bus as it was leaving a stop on the Washington State University campus. The plaintiff received extensive injuries. As of the end of April 2014, depositions have been held and we are waiting on a demand letter. The claim is covered by liability insurance through the Washington State Transit Insurance Pool in an amount far in excess of the claim. Management feels than any settlement, if any, will be in an amount far less than what was claimed.

On January 7, 2013 C.J. Reid filed a civil suit alleging violation of the state public records act seeking monetary damages in the form of attorney fees and costs. On February 5, 2014 the court granted summary judgment on all claims in favor of the City. Plaintiff has appealed to Division 3, Court of Appeals. Management feels the claims are unsubstantiated. Due to the uncertainty of litigation, validity and dollar amount of any potential judgment in favor of plaintiff, there have been no adjustments made to the records of City funds. The claim is not covered by insurance.

NOTE 14 - RESTRICTED COMPONENT OF NET POSITION

These resources are set aside for specific uses and/or are restricted by law for specific purposes. The government-wide statement of net position reports $2,962,904 of restricted component of net position, $1,956,581 for culture and recreation, $378,364 for debt service, $257,616 for nonexpendable cemetery perpetual care, and $370,343 for other purposes.

NOTE 15 - INTERFUND BALANCES AND TRANSFERS

A. Classification of Interfund Transactions

Interfund transactions are classified as follows:

1. Transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City.

2. Transfers to support the operations of other funds are recorded as "Operating Transfers" and classified with "Other Financing Sources or Uses."

3. Contributions to the capital to enterprise or internal service funds, transfers to establish or reduce working capital in other funds, and transfers of remaining balances when funds are closed are classified as residual equity transfers and reported as direct additions to or deductions from fund equity.

4. Loans between funds are classified as interfund loans receivable and payable or as advances to and from other funds on the combined balance sheet depending on the time period for which the loan was made. Interfund loans do not affect total fund equity, but advances to other funds are offset by a reservation of fund equity.

The following table displays interfund balances at December 31, 2013:

Fund Type	Due From Other Funds	Due To Other Funds	Interfund Loans Receivable	Interfund Loans Payable
General Fund	$ -	$ -	$ -	$ -
Street	-	-	-	-
Other Gov't Funds	-	-	-	-
Internal Service	-	-	-	-
Agency	-	-	-	-
Fiduciary	-	-	-	-
Proprietary	-	-	-	-
Totals	**$ -**	**$ -**	**$ -**	**$ -**

The following table displays interfund activity during 2013:

	Operating Transfers		Residual Equity Transfers	
Fund Type	**In**	**Out**	**In**	**Out**
General Fund	$ -	$(305,289)	$ -	$ -
Street	102,024	-	-	-
Other Gov't Funds	-	-	-	-
Internal Service	305,289	-	-	-
Agency	-	-	-	-
Fiduciary	-	-	-	-
Proprietary	-	(102,024)	-	-
Totals	**$407,313**	**$(407,313)**	**$ -**	**$ -**

NOTE 16 - RECEIVABLE AND PAYABLE BALANCES

A. Receivables

Receivables at December 31, 2013 were as follows:

	Accounts	Taxes	Due from Other Government	Other	Total
Governmental Activities:					
General Fund	$554,691	$177,459	$243,236	$271,752	$1,247,138
Street Fund	113,737	-	46,835	-	160,572
Other Governmental Funds	-	32,757	6,485	14,290	53,532
Doubtful Accounts	(66,845)				(66,845)
Total Governmental Activities	$601,583	$210,216	$296,556	$286,042	$1,394,397
Amounts not scheduled for collection during the subsequent year	$ -	$ -	$ -	$ -	$ -
Business-Type Activities:					
Utility Fund	$739,818	$ -	$1,345,313	$13,697	$2,098,828
Transit Fund	-	-	799,725	88,316	888,041
Total Business-Type Activities	$739,818	$ -	$2,145,038	$102,013	$2,986,869

B. Payables

Payables at December 31, 2013 were as follows:

	Vendors	Salaries and Benefits	Other	Total
Governmental Activities:				
General Fund	$112,658	$819,719	$388,987	$1,321,364
Street Fund	71,980	32,656	- 275,436	380,072
Other Governmental Funds	156,315	142,656	-	298,971
Reconciliation of balances in fund financial statements to government-wide financial statements:				
Compensated absences	-	506,489	-	506,489
Total Governmental Activities	$340,953	$1,501,520	$664,423	$2,506,896
Business-Type Activities:				
Utility Fund	$287,308	$278,301	$35,471	$601,080
Transit Fund	24,360	243,923	-	268,283
Total Business-Type Activities	$311,668	$522,224	$35,471	$869,363

NOTE 17 - OTHER POSTEMPLOYMENT BENEFIT (OPEB)

The City adopted the requirements of GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions*, during the year ended December 31, 2008. Following accrual accounting principles, the City recognizes the cost of postemployment healthcare in the year the when the employee services are received, reports the accumulated liability from prior years, and provides information to determine future demands on future cashflows.

We used the alternative measurement method permitted under GASB Statement No.45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 rates used in June 30, 2009 actuarial valuation report issued by the Office of the State Actuary (OSA). Health costs and trends were determined by Milliman and used by the OSA in the state-wide LEOFF 1 medical study performed in 2011. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial valuation cost method used to determine AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purpose of this valuation.

A. Plan/Trust Description

The City of Pullman Firemen Pension Fund is a single-employer defined benefit pension fund established and administered by the City in accordance with RCW 41.16.

Other postemployment benefit plans provide lifetime medical benefits to all firefighters and uniformed police officers who were hired prior to October 1, 1977 (RCW 41.26).

There is 1 active firefighter covered under these plans as of December 31, 2013. There are 15 retirees receiving benefits from the plans.

The City is a participating employer in the Association of Washington Cities Employee Benefit Trust (Trust), a cost sharing multiple employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of participating employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and the nature of medical and other benefits provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and requires supplementary information for the Trust. That report, along with a copy of the Trust document, may be obtained by writing to the Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling 1-800-562-8981.

B. Funding Policy

The City is obligated by the Revised Code of Washington to make all required contributions to the plans. The major funding sources for these plans are property taxes, retail sales and use tax, investment earnings, and the State fire insurance premium tax. These benefits are funded on a pay-as-you-go basis through the General Fund. The City does not have a funding policy and there are no assets designated for the benefits. Employees are not required to make contributions to the plans.

The Association of Washington Cities Employee Benefit Trust provides that contribution requirements of participating employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute $1,572.98 per month for non-Medicare enrolled retiree-only coverage and $1,002.83 for Medicare enrolled retiree. Police retirees of the City receiving medical benefits from the Trust contribute $849.02 per month for non-Medicare enrolled retiree-only coverage and $513.24 for Medicare enrolled retiree. Fire retirees of the City receiving medical benefits from the Trust contribute $723.96 per month for non-Medicare enrolled retiree-only coverage and $489.59 for Medicare enrolled retiree.

C. OPEB Cost and Obligation

The City reimbursed a fixed amount of $104.90 per month in 2013 for a Medicare supplement for 13 retirees eligible for Medicare.

Employer validated claims for medical and hospitalization reimbursements are financed on a pay-as-you-go basis. Expenditures for postretirement health care benefits are recognized as retirees report claims. The City also carries nursing-home coverage on all active and retired LEOFF 1 employees. During 2013, expenditures of $170,509 were recognized for postretirement health care.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for the years ended December 31, were:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	$524,460	32.5%	$1,186,565
2012	$411,225	64.3%	$832,614
2011	$454,652	51.4%	$685,697

D. Funded Status

Funded Status	OPEB Plan
Validation Date	December 31, 2013
Actuarial Value of Assets	$ -
Actuarial Accrued Liability (AAL)	$ 6,165,530
Unfunded Actuarial Unfunded Actuarial (UAAL)	$ 6,165,530
Funded Ratio	0.00%
Covered Payroll	N/A
UAAL - Percentage of Covered Payroll	N/A

Actuarial Methods and Assumptions	OPEB Plan
Validation Date	December 31, 2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	N/A
Remaining Amortization Period	N/A
Asset Valuation Method	N/A

NOTE 18 - OTHER DISCLOSURES

A. Major Receivables

Washington State University is a major user of the City's wastewater treatment facilities. Through an amended interlocal agreement, it reimburses the City for 36.4 percent of the facility maintenance and operating expenses.

B. Related Party Transactions

There are no significant related party transactions.

C. Prior Period Adjustments

Business Type Activities: Retained earnings at the beginning of 2013 have been restated to reclassify a construction in progress capital asset to an expenditure in 2012. The effect of the restatement was to decrease net position by $283,829.

D. Accounting and Reporting Changes

The City implemented GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions*, for the fiscal year ending 2008 (See Note 17).

E. Subsequent Events

On January 27, 2014 an ordinance passed authorizing the issuance of a water and sewer revenue bond in the principal amount of up to $1,674,000 to provide financing for certain improvements to the waterworks utility; authorizing the form and terms of such bond; and reserving the right to issue revenue bonds in the future on a parity with the bond herein authorized upon compliance with certain conditions; and authorizing a private placement of the bond. The bond issuance is partial funding for the project. The City accepted an offer from Columbia State Bank to purchase the bonds at an annual interest rate not to exceed 3.24 percent with a maturity date of December 1, 2023.

F. Significant Revenue and Expenditure Changes

There were no significant revenue or expenditure changes.

CITY OF PULLMAN, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ending December 31, 2013

Federal Agency Name / Pass-Through Agency Name / Program Title	Federal CFDA Number	Other Identification Number	From Indirect Awards	From Direct Awards	Total
Environmental Protection Agency, Office of Water					
Department of Ecology / Capitalization Grants for Clean Water State Revolving Funds	66.458	L1200011	$ 274,432		$ 274,432
Total Environmental Protection Agency, Office of Water					**274,432**
Department of Transportation, Federal Transit Administration (FTA)					
Washington State Department of Transportation (WSDOT) /					
Formula Grants for Rural Areas (Operating Grant)	20.509	GCA6809	300,000		300,000
Formula Grants for Rural Areas (Operating Grant)	20.509	GCB1629	300,000		300,000
Federal Transit_Capital Investment Grants (Capital Grant - Hybrid Buses)	20.500	GCB1228	1,510,500		1,510,500
Federal Transit_Capital Investment Grants (Capital Grant - ADA Van)	20.500	GCB1228-01	55,138		55,138
Total Department of Transportation, Federal Transit Administration (FTA)					**2,165,638**
Department of Transportation, National Highway Traffic Safety Administration (NHTSA)					
WA Traffic Safety Commission /					
State and Community Highway Safety	20.600	2012-2013 WASPC Traffic Safety	977		977
State and Community Highway Safety	20.600	Target Zero - Impaired Driving	2,473		2,473
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	Target Zero - Impaired Driving	2,376		2,376
Occupant Protection Incentive Grants	20.602	Target Zero - Seat Belts	1,356		1,356
Total Department of Transportation, National Highway Traffic Safety Administration (NHTSA)					**7,182**
Department of Transportation, Federal Highway Administration (FHWA)					
Washington State Department of Transportation (WSDOT) /					
Highway Planning and Construction - (Bridge and Overlay)	20.205	BHM-7418(003)	165,869		165,869
Highway Planning and Construction - (Resurfacing)	20.205	STPUS-7407(004)	7,093		7,093
Total Department of Transportation, Federal Highway Administration (FHWA)					**172,962**
Department of Transportation, Federal Aviation Administration (FAA)					
Airport Improvement Program	20.106	3-53-0051-36		84,900	84,900
Airport Improvement Program	20.106	3-53-0051-37		391,989	391,989
Airport Improvement Program	20.106	3-53-0051-38		1,068,088	1,068,088
Airport Improvement Program	20.106	3-53-0051-39		5,782	5,782
Total Department of Transportation, Federal Aviation Administration (FAA)					**1,550,759**
Department of Homeland Security, Federal Emergency Management Agency					
Assistance to Firefighters Grants - (Fire Truck)	97.044	EMW-2011-FV-05347		363,825	363,825
Assistance to Firefighters Grants - (Cots and Computers)	97.044	EMW-2012-FO-06497		80,370	80,370
Total Department of Homeland Security, Federal Emergency Management Agency					**444,195**
Department of Justice, Bureau of Justice Assistance					
Edward Byrne Memorial Justice Assistance Grant Program - (Smart Policing Initiative)	16.738	2011-DB-BX-0015		174,025	174,025
Bulletproof Vest Partnership Program	16.607	BVP		1,673	1,673
Washington State Department of Commerce / Edward Byrne Memorial Justice Assistance Grant Program - (Multi-Jurisdiction Drug-Gang Task Force)	16.738	2011-DJ-BX-2090	16,000		16,000
Total Department of Justice, Bureau of Justice Assistance					**191,698**
Department of Justice, Violence Against Women Office					
Washington State Department of Commerce / Violence Against Women Formula Grant	16.588	2012-WF-AX-0047	6,998		6,998
Washington State University / Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525	2011-WA-AX-0009	4,323		4,323
Total Department of Justice, Violence Against Women Office					**11,321**
Department of the Interior, National Park Service					
Washington State Department of Archaeology and Historic Preservation / Historic Preservation Fund Grants-In-Aid	15.904	FY13-61013-006	4,477		4,477
Total Department of the Interior, National Park Service					**4,477**
Total Federal Awards					**$ 4,822,664**

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

City of Pullman

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 1: BASIS OF ACCOUNTING

The Schedule of Financial Assistance is prepared on the same basis of accounting as the City's financial statement. The City uses the accrual basis of accounting.

Note 2: PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal portion of the program costs, including the City's portion, may be more than shown.

Note 3: FEDERAL AVIATION ADMINISTRATION GRANTS

The City is the primary recipient of all Federal Aviation Administration grants (CFDA 20.106) for its sub recipient, the Pullman-Moscow Regional Airport. As the primary recipient, the City monitors the activities of the sub recipient in accordance with OMB Circular A-133. All other compliance requirements and specific grant terms are tested at the sub recipient level and, as such, are not included in the single audit reports of the City.

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.

We 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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Chief of Staff	**Doug Cochran**
Director of Performance and State Audit	**Chuck Pfeil, CPA**
Director of Local Audit	**Kelly Collins, CPA**
Deputy Director of State Audit	**Jan M. Jutte, CPA, CGFM**
Deputy Director of Local Audit	**Sadie Armijo**
Deputy Director of Local Audit	**Mark Rapozo, CPA**
Deputy Director of Performance Audit	**Lou Adams, CPA**
Deputy Director of Quality Assurance	**Barb Hinton**
Deputy Director of Communications	**Thomas Shapley**
Public Records Officer	**Mary Leider**
Main number	**(360) 902-0370**
Toll-free Citizen Hotline	**(866) 902-3900**

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