

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

City of Pullman
Whitman County

Audit Period
January 1, 2011 through December 31, 2011

Report No. 1008454

Issue Date
September 26, 2012



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

September 26, 2012

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,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Whitman County
January 1, 2011 through December 31, 2011**

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Federal Summary

**City of Pullman
Whitman County
January 1, 2011 through December 31, 2011**

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 unqualified 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 unqualified 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:

| <u>CFDA No.</u> | <u>Program Title</u> |
|-----------------|----------------------------------------------------------------------|
| 81.128 | ARRA – Energy Efficiency and Conservation Block Grant (Recovery Act) |
| 20.509 | Formula Grants for Other Than Urban Areas |
| 20.509 | ARRA - Formula Grants for Other Than Urban Areas (Recovery Act) |
| 20.106 | Airport Improvement Program |

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 did not qualify 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 in Accordance with *Government Auditing Standards*

**City of Pullman
Whitman County
January 1, 2011 through December 31, 2011**

Mayor and City Council
City of Pullman
Pullman, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Pullman, Whitman County, Washington, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 20, 2012. During the year ended December 31, 2011, the City implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

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

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 20, 2012

Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct
and Material Effect on Each Major Program and
on Internal Control over Compliance in
Accordance with OMB Circular A-133

**City of Pullman
Whitman County
January 1, 2011 through December 31, 2011**

Mayor and City Council
City of Pullman
Pullman, Washington

COMPLIANCE

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, 2011. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2011.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

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

This report is intended for the information of management, the Mayor and City Council, federal awarding agencies and pass-through entities. 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.



BRIAN SONNTAG, CGFM
STATE AUDITOR

September 20, 2012

Independent Auditor's Report on Financial Statements

City of Pullman Whitman County January 1, 2011 through December 31, 2011

Mayor and City Council
City of Pullman
Pullman, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Pullman, Whitman County, Washington, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed on page 9. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Street funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide

an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed 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 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 financial statements or to the 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.



BRIAN SONNTAG, CGFM
STATE AUDITOR

September 20, 2012

Financial Section

**City of Pullman
Whitman County
January 1, 2011 through December 31, 2011**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2011

BASIC FINANCIAL STATEMENTS

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

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards – 2011
Notes to the Schedule of Expenditures of Federal Awards – 2011

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, 2011. 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 \$93,418,316 (net assets) for the fiscal year reported.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$74,946,421 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net assets of \$2,493,037 are restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net assets of \$15,978,8577 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 \$6,301,300 this year. This compares to the prior year ending fund balance of \$7,411,863, showing a decrease of \$1,110,563 during the current year. Unassigned fund balance of \$473,575 for fiscal year 2011 shows a \$6,289,094 decrease from the prior year as a result of implementing GASB 54 and the resultant change in classification.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$473,575, or 3.1 percent of total General Fund expenditures including transfers and 3.2 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 assets*. Over time, increases or decreases in net assets 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 assets 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. Budgetary comparison schedules for all other governmental funds can be found later in this report. These statements demonstrate compliance with the City’s adopted and final revised budget.

Individual fund information for non-major governmental funds is found in combining statements later in this report.

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 assets may be observed and used to discuss the changing financial position of the City as a whole.

The City Implemented GASG Statement No. 54, Fund Balance Reporting and Governmental Reporting and Fund Type Definitions, during 2011.

The City's net assets at fiscal year-end are \$93,418,316. The following table provides a summary of the City's net assets as of December 31, 2011 and December 31, 2010:

Summary of Net Position

| | Governmental Activities | | Business-Type Activities | | Total | | Percentage Of Total | |
|-------------------------------|------------------------------------|----------------------------|-------------------------------------|----------------------------|----------------------------|----------------------------|--------------------------------|----------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Assets: | | | | | | | | |
| Current assets | \$9,316,370 | \$10,323,661 | \$ 11,661,915 | \$ 9,480,960 | \$20,978,285 | \$19,804,621 | 20.0% | 19.5% |
| Restricted assets | 1,233,656 | 1,228,149 | 550,175 | 530,155 | 1,783,831 | 1,758,304 | 1.7% | 1.7% |
| Capital assets | <u>32,497,681</u> | <u>30,862,575</u> | <u>49,648,766</u> | <u>49,225,469</u> | <u>82,146,447</u> | <u>80,088,044</u> | <u>78.3%</u> | <u>78.8%</u> |
| Total assets | 43,047,707 | 42,414,385 | 61,860,857 | 59,236,584 | 104,908,563 | 101,650,969 | 100.0% | 100.0% |
| Liabilities: | | | | | | | | |
| Current liabilities | 2,638,904 | 2,283,495 | 1,563,932 | 718,377 | 4,202,836 | 3,001,872 | 36.6% | 26.6% |
| Long-term liabilities | <u>2,604,748</u> | <u>2,568,724</u> | <u>4,682,664</u> | <u>5,712,621</u> | <u>7,568,755</u> | <u>8,281,345</u> | <u>63.4%</u> | <u>73.4%</u> |
| Total liabilities | 5,243,652 | 4,852,219 | 6,246,596 | 6,430,998 | 11,490,248 | 11,283,217 | 100.0% | 100.0% |
| Net assets: | | | | | | | | |
| Investment in capital assets, | | | | | | | | |
| net of debt | 30,578,630 | 26,183,733 | 44,367,391 | 43,512,848 | 74,946,421, | 69,696,581 | 80.2,% | 77.1% |
| Restricted | 2,493,037 | 2,331,831 | - | - | 2,493,037 | 2,331,831 | 8.8,% | 2.6% |
| Unrestricted | <u>4,732,388</u> | <u>9,046,602</u> | <u>11,246,470</u> | <u>9,292,738</u> | <u>15,978,858,</u> | <u>18,339,340</u> | <u>11.0%</u> | <u>20.3%</u> |
| Total net assets | <u>\$37,804,055</u> | <u>\$37,562,166</u> | <u>\$55,614,261</u> | <u>\$52,805,586</u> | <u>\$93,418,316</u> | <u>\$90,367,752</u> | <u>100.0%</u> | <u>100.0%</u> |

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 3.3 to 1 and 7.5 to 1 for business-type activities. For the City overall, the current ratio is 4.7 to 1. We consider these ratios within an acceptable range.

The City reported positive balances in net assets for both governmental and business-type activities. Net assets increased \$573,122 for governmental activities for a net increase of 241,889 after the prior period adjustment and increased by \$4,103,158 for business-type activities and a net increase of \$2,808,675 after the prior period adjustment and the adjustment for the prior year net asset change. The City's overall financial position improved during fiscal year 2011

Note that approximately 86.0 percent of the governmental activities' net assets 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 89.3 percent of its net assets on capital. Capital assets in the business-type activities provide utility services, but they also generate revenues for these funds. Capital assets make up 87.9 percent of the City's total net assets.

The following table provides a summary of the City's changes in net assets as of December 31, 2011 and December 31, 2010:

| | Summary of Changes in Net Assets | | | | | | Percentage | |
|-------------------------------|----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|------------|--------|
| | Governmental | | Business-Type | | Total | | Of Total | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Revenues: | | | | | | | | |
| Program: | | | | | | | | |
| Charges for services | \$ 2,712,183 | \$ 2,867,230 | \$12,606,151 | 10,291,695 | \$15,318,334 | \$13,128,925 | 45.1% | 42.4% |
| Fines and forfeits | - | - | - | - | - | - | 0.0% | 0.0% |
| Miscellaneous | - | - | - | - | - | - | 0.0% | 0.0% |
| Operating Grants | 3,977,049 | 2,448,579 | 1,184,417 | 3,735,729 | 5,161,466 | 6,184,308 | 15.2% | 18.9% |
| Capital Grants | - | - | 62,700 | 743,412 | 62,700 | 743,412 | 0.2% | 0.0% |
| General: | | | | | | | | |
| Taxes | 13,242,229 | 12,466,728 | - | - | 13,242,229 | 12,466,728 | 39.1% | 38.1% |
| Interest | 134,782 | 159,543 | 13,056 | 12,224 | 147,838 | 171,767 | 0.4% | 0.5% |
| Disposition of capital assets | - | - | - | - | - | - | 0.0% | 0.0% |
| Total revenues | 20,066,243 | 17,942,080 | 13,866,324 | 14,753,060 | 33,932,567 | 32,695,140 | 100.0% | 100.0% |
| Program expenses: | | | | | | | | |
| Gen Gov't Services | 1,787,509 | 1,596,237 | - | - | 1,787,509 | 1,596,237 | 5.9% | 5.9% |
| Public Safety | 10,083,421 | 9,920,234 | - | - | 10,083,421 | 9,920,234 | 36.4% | 36.4% |
| Highways and Streets | 2,158,791 | 2,091,855 | - | - | 2,158,791 | 2,091,855 | 7.7% | 7.7% |
| Economic Development | - | - | - | - | - | - | 0.0% | 0.0% |
| Culture & Recreation | 4,952,806 | 4,840,846 | - | - | 4,952,806 | 4,840,846 | 17.8% | 17.8% |
| Int & Other Debt Service | - | - | - | - | - | - | - | - |
| Costs | 290,581 | 89,018 | - | - | 290,581 | 89,018 | 0.3% | 0.3% |
| Utilities | - | - | 7,131,042 | 6,007,360 | 7,131,042 | 6,007,360 | 22.1% | 22.1% |
| Other business types | - | - | 2,841,254 | 2,671,463 | 2,841,254 | 2,671,463 | 9.8% | 9.8% |
| Total expenses | 19,273,108 | 18,538,190 | 9,972,296 | 8,687,823 | 29,245,404 | 27,217,013 | 100.0% | 100.0% |
| Excess revenues | 793,135 | (596,110) | 3,894,028 | 6,074,237 | 4,687,163 | 5,478,127 | - | - |
| Transfers | (220,013) | (188,956) | 209,131 | 188,000 | (10,882) | (956) | - | - |
| Prior period adjustments | (331,232) | - | (1,294,483) | (1,184,419) | (1,924,715) | (1,184,419) | - | - |
| Change in net assets | 241,890 | (785,066) | 2,808,675 | 5,077,818 | 3,050,565 | 4,292,752 | - | - |
| Beginning net assets | 37,562,165 | 38,347,232 | 52,805,586 | 47,727,768 | 90,367,751 | 86,075,000 | - | - |
| Ending net assets | <u>\$37,804,055</u> | <u>\$37,562,166</u> | <u>\$55,641,261</u> | <u>\$52,805,586</u> | <u>\$93,418,316</u> | <u>\$90,367,751</u> | - | - |

GOVERNMENTAL REVENUES

The City is heavily reliant on three types of taxes to support governmental operations. Property taxes provided 28.61 percent of the revenues for governmental activities. Sales taxes provided 16.7 percent of these revenues, and utility taxes total 16.6 percent. Charges for services totaled 13.5 percent of these revenues. Note that program revenues cover approximately 34.7 percent of governmental operating expenses. This means that the government's taxpayers and the City's other general revenues fund 65.3 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 52.3 percent of the City's total governmental expenses. Highways and Streets costs make up 11.2 percent of the total governmental expenses. The general government services expenses are 9.3 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

| | <u>Total Cost Of Services</u> | | <u>Net Cost Of Services</u> | |
|-----------------------------------------------------------|-----------------------------------|---------------------|---------------------------------|-----------------------|
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| Gen Gov't Services | \$1,787,509 | \$1,596,237 | \$64,257 | \$(425,621) |
| Public Safety | 10,083,421 | 9,920,234 | (8,621,803) | (8,372,483) |
| Highways and Streets | 2,158,791 | 2,091,855 | (167,174.) | (848,632) |
| Culture & Recreation Int & Other Debt Service Costs | 4,952,806 | 4,840,846 | (3,568,575) | (3,486,627) |
| | <u>290,581</u> | <u>89,018</u> | <u>(290,581)</u> | <u>(89,018)</u> |
| | <u>\$19,273,108</u> | <u>\$18,538,190</u> | <u>\$(12,583,876)</u> | <u>\$(13,222,381)</u> |

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 7.5 to 1, which is a healthy ratio. The business-type activities report capitalized assets of over \$49.6 million, which provide a variety of services to the citizens of Pullman.

The business-type activities report \$11.25 million in unrestricted net assets, 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 were down \$87,880 or 16.7 percent less than 2010, with operating expenses 13.7 percent more than 2010. Within the total business-type activities of the City, these enterprise funds reported \$(613,973) operating income compared to operating income of \$(526,093) 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 \$6.3 million. Of this year-end total, \$.47 million is unassigned indicating a diminishing availability for continuing City service requirements. Legally restricted fund balances include \$701,917 committed to the Lawson Expendable Trust, Firemen Pension Fund, and the Cemetery Perpetual Care Fund.

The total ending fund balances of governmental funds show a decrease of \$1,110,563 or 15 percent below the prior year. This decrease 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 decreased by \$1,058,762. In the prior year, the fund balance decreased by \$1,023,208. Unassigned fund balance as a percentage of expenditures was .4 percent of operations or slightly less than an one-half month of operations. This is an inadequate amount to protect the fund against unforeseen emergencies or downturns in the economy. Action has been taken in 2012 to correct this situation.

Taxes totaling \$13.24 million made up 59.9 percent of total general fund revenue in 2011 as compared to 62.5 percent in 2010. Sales Taxes increased approximately 15.29 percent or \$445,081 as the City has seen upticks in the economy.

General fund expenditures increased \$193,278 or approximately 1.3 percent. This is a smaller increase than budgeted and is related to staff efforts to curtail expenditures. Public safety made up 64.3 percent of total expenditures. Since the general fund supports a number of programs in other funds, \$99,035 was transferred to these funds including \$61,923 to the equipment rental fund, \$32,012 to the Airport and \$5,100 to the information systems fund. \$85,198 of park and recreation restricted funds was transferred to the Metropolitan Park Fund.

The streets fund ended the year with an decrease in fund balance of \$213,011. After the above-mentioned transfers, the net assets balance in the government buildings and the information systems funds were \$505,911 and \$304,120 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 assets of \$47.7 million, with 81.2 percent invested in capital assets. The current ratio for this fund is 6.7 to 1 which provides this fund with adequate resources to cover cash flow issues.

The water and sewer systems reported operating income of \$1,303,651 with a total increase in net assets of approximately \$2,597,859 million after capital contributions and transfers in from other funds. The operating income amount is more favorable than the operating income of \$1,280,829 in 2010. The total increase in net assets is not a favorable as the amount of \$3.4 million in 2010

The Transit System - The transit system reports net assets of \$6.5 million, with 87.8 percent invested in capital assets. The current ratio for this fund is 5.4 to 1 which provides this fund with adequate resources to cover cash flow issues.

The transit system reported operating loss of \$1,917,624 with a total increase in net assets of approximately \$186,492 after capital contributions and transfers in from other funds. The operating income amount is not as favorable as the loss of \$1,806,922 in 2010. The total increase in net assets is not as favorable as the amount of \$1,699,156 in 2010.

Budgetary Highlights

The General Fund – The General Fund's original revenue budget was more than the 2011 actual results and the expenditure budget was less than the 2011 actual results. The City Council amended both the revenue and expenditure budgets during 2011, which resulted in a .9 net percent change between the original and final budgets. In total, actual revenues were less than the final budget by \$344,562 or about a 2.25 percent difference. The primary changes to the expenditure budgets were salary and benefit costs savings from not filling positions in Library and Police, overtime expenditures in the fire department and expenditure reductions by departments. The primary changes in the revenue budgets are related to taxes and ambulance billings. The total actual expenditures were approximately \$508,679 less than budgeted or 3.19 percent below budget.

On the revenue side of the budget, the primary difference between the final budget and the actual amounts relates to sales taxes, utility taxes, licenses and permits, charge for services and investment earnings. The difference in sales taxes relates to increase in the retail sector. The differences in utility taxes relate to a mild winter, increases in licensing and permits revenues were due to increases in building permit activity. Decreases to investment earnings are a combination of lower rates.

On the expenditure side of the budget, the largest variances between the final budget and the actual amounts are in fire, cultural and recreational, finance, and administration. The fire function was less than the final budget by \$187,839 or a 4.2 percent difference. The actual amounts expended by cultural and recreational were less than the final budget by \$193,174 or 4.7 percent difference. The actual amounts expended by the finance and administration function were less than the final budget by \$60,056 or a 8.3 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, 2011, was \$32.5 million and \$49.6 million respectively. The total change in net investment was a 5.3 percent increase for governmental and an .9 percent increase for business-type activities. The overall increase was 2.6 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 | |
|------------------------------|----------------------------|-----------------|-----------------------------|-----------------|-----------------|---------------|------------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | | | | | | | | |
| Non-depreciable assets: | | | | | | | | |
| Land | \$1,235 | \$1,235 | \$ 997 | \$ 997 | \$ 2,232 | \$ 2,232 | 1.8% | 1.9% |
| Construction in progress | 2,470 | 622 | 7,060 | 5,875 | 9,530 | 6,497 | 7.8% | 5.6% |
| Total non-depreciable | 3,705 | 1,857 | 8,057 | 6,872 | 11,762 | 8,729 | 9.6% | 7.5% |
| Depreciable assets: | | | | | | | | |
| Plant in service | - | - | 64,714 | 63,782 | 64,714 | 63,782 | 53.1% | 54.5% |
| Buildings | 5,163 | 5,163 | - | - | 5,163 | 5,163 | 4.2% | 4.4% |
| Other improvements | 5,847 | 5,792 | - | - | 5,847 | 5,792 | 4.8% | 5.0% |
| Machinery and equipment | 7,507 | 7,360 | - | - | 7,507 | 7,360 | 6.2% | 6.3% |
| Infrastructure | 26,942 | 26,105 | - | - | 26,942 | 26,105 | 22.1% | 22.3% |
| Total depreciable assets | 45,459 | 44,420 | 64,714 | 63,782 | 110,173 | 108,202 | 90.4% | 92.5% |
| Total cost of capital assets | 49,164 | 46,277 | 72,771 | 70,654 | 121,935 | 116,931 | <u>100.0%</u> | <u>100.0%</u> |
| Accumulated depreciation | 16,666 | 15,414 | 23,122 | 21,428 | 39,788 | 36,842 | | |
| Book value - capital assets | <u>\$32,498</u> | <u>\$30,863</u> | <u>\$49,649</u> | <u>\$49,226</u> | <u>\$82,147</u> | <u>80,089</u> | | |
| Percentage depreciated | <u>33.9%</u> | <u>33.3%</u> | <u>31.8%</u> | <u>30.3%</u> | <u>32.6%</u> | <u>31.5%</u> | | |

At December 31, 2011, the depreciable capital assets for governmental activities were 33.9 percent depreciated compared to 33.3 percent at December 31, 2010. These percentages provide an indicator that the City is maintaining and replacing their assets at a favorable rate.

With the City's business type activities, 31.8 percent of the asset values were depreciated at December 31, 2011 compared to 30.3 percent at December 31, 2010. 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 \$7.2 million. Of this amount, \$1,610,000 or 22.4 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 \$2,490,000 or 34.6 percent. The other major components are \$2,791,000 supported by pledged revenues generated primarily by the business-type activities of the City (Public Works Trust Fund loans) and the governmental activities of the City (LOCAL Program).

During the year, the City retired \$1,047,215 or 13.4 percent of the beginning outstanding borrowed debt balance and added \$411,401 for a net reduction of \$635,814.

| | Outstanding Borrowings | | | | | | Percentage Change |
|--------------------------|-------------------------------|-----------------|-----------------------------|-----------------|-----------------|-----------------|----------------------|
| | (in \$1,000's) | | | | | | |
| | Governmental Activities | | Business-Type Activities | | Totals | | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | |
| General obligation bonds | \$ 1,610 | \$ 1,860 | \$ - | \$ - | \$ 1,610 | 1,860 | -13.4% |
| Special assessment debt | - | - | - | - | - | - | 0.0% |
| Revenue bonds | - | - | 2,490 | 2,590 | 2,490 | 2,590 | 3.9% |
| Capital leases | 172 | 71 | - | - | 172 | 71 | 142.3% |
| Bank and other loans | 137 | 192 | 2,791 | 3,123 | 2,928 | 3,315 | -11.7% |
| Total | <u>\$ 1,919</u> | <u>\$ 2,123</u> | <u>\$ 5,281</u> | <u>\$ 5,713</u> | <u>\$ 7,200</u> | <u>\$ 7,836</u> | -8.1% |

The debt per capita was approximately \$240.65, 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. The City of Pullman's sales tax collections have been strong due to high levels of new construction in previous years. Based on the weaker building permit issuances in 2011, and decreasing scheduled construction on the Washington State University campus, new construction weakened sales tax collections in 2011. A strong increase in retail and wholesale sales tax sectors helped to grow our sales taxes in 2011. The City of Pullman will benefit from increased building at Washington State University on sales taxable projects. 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, 2011

| | Primary Government | | Total |
|---------------------------------------------------|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | |
| ASSETS | | | |
| Cash and cash equivalents | \$ 7,637,196 | \$ 8,052,729 | \$ 15,689,925 |
| Investments | - | 515,130 | 515,130 |
| Receivables (net of allowance for uncollectibles) | 1,205,928 | 1,901,244 | 3,107,172 |
| Due from other government units | 246,667 | 23,663 | 270,330 |
| Internal balances | | 1,218,753 | 1,218,753 |
| Inventories | 196,995 | 455,114 | 652,109 |
| Prepays | 29,584 | 10,412 | 39,996 |
| Deferred charges | | | |
| Restricted assets: | | | |
| Temporarily restricted: | | | |
| Cash and cash equivalents | 658,656 | 35,045 | 693,701 |
| Investments | 575,000 | | 575,000 |
| Intergovernmental receivable | - | | - |
| Permanently restricted: | | | |
| Investments | | | |
| Capital assets (net of accumulated depreciation): | | | |
| Land | 1,234,830 | 996,638 | 2,231,468 |
| Buildings and system | 2,260,032 | 13,031,701 | 15,291,733 |
| Improvements other than buildings | 4,153,233 | 14,438,913 | 18,592,146 |
| Machinery and equipment | 2,606,488 | 14,121,408 | 16,727,896 |
| Infrastructure | 19,772,751 | | 19,772,751 |
| Construction in progress | 2,470,347 | 7,060,106 | 9,530,453 |
| Total assets | <u>43,047,707</u> | <u>61,860,857</u> | <u>104,908,563</u> |
| LIABILITIES | | | |
| Accounts payable and other current liabilities | 438,094 | 397,095 | 835,189 |
| Matured long term debt | | | - |
| Custodial deposits | 244,284 | - | 244,284 |
| Taxes payable | 220,232 | | 220,232 |
| Accrued interest payable | - | 40,152 | 40,152 |
| Accrued wages and benefits | 955,153 | 328,374 | 1,283,527 |
| Compensated absences | 526,001 | 152,085 | 678,086 |
| Unearned revenue | 255,140 | 12,670 | 267,810 |
| Liabilities payable from restricted assets | - | 35,245 | 35,245 |
| Noncurrent liabilities: | | | - |
| Net OPEB obligation | 685,697 | - | 685,697 |
| Due within one year | 365,919 | 750,396 | 1,116,315 |
| Due in more than one year | 1,434,063 | 4,530,579 | 5,964,642 |
| Capital Leases | 119,069 | | 119,069 |
| Total liabilities | <u>5,243,652</u> | <u>6,246,596</u> | <u>11,490,248</u> |
| NET Position | | | |
| Invested in capital assets, net of related debt | 30,578,630 | 44,367,791 | 74,946,421 |
| Restricted for: | | | |
| Highways and streets | | | |
| Culture and recreation | 1,791,120 | | 1,791,120 |
| Debt service | | | |
| Perpetual care: | | | |
| Expendable | | | |
| Nonexpendable | 250,297 | | 250,297 |
| Other purposes | 451,620 | - | 451,620 |
| Unrestricted | 4,732,388 | 11,246,470 | 15,978,858 |
| Total net position | <u>\$ 37,804,055</u> | <u>\$ 55,614,261</u> | <u>\$ 93,418,317</u> |

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

**City of Pullman
Statement of Activities
For the Year Ended December 31, 2011**

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | |
|--------------------------------------------------------------|------------------|----------------------|------------------------------------|-------------------------------------------------|-------------------------|--------------------------|---------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total |
| | | | | | Governmental Activities | Business-type Activities | |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 1,787,509 | \$ 618,084 | \$ 1,233,682 | \$ - | \$ 64,257 | \$ - | \$ 64,257 |
| Public safety | 10,083,421 | 413,630 | 1,047,988 | - | (8,621,803) | - | (8,621,803) |
| Highways and streets | 2,158,791 | 484,042 | 1,507,575 | - | (167,174) | - | (167,174) |
| Culture and recreation | 4,952,806 | 1,196,427 | 187,804 | - | (3,568,575) | - | (3,568,575) |
| Interest on long-term debt | 290,581 | - | - | - | (290,581) | - | (290,581) |
| Total governmental activities | 19,273,108 | 2,712,183 | 3,977,049 | - | (12,583,876) | - | (12,583,876) |
| Business-type activities: | | | | | | | |
| Utilities | 7,131,042 | 9,730,128 | 258,207 | 62,700 | - | 2,919,993 | 2,919,993 |
| Transit | 2,841,254 | 2,876,023 | 926,210 | - | - | 960,979 | 960,979 |
| Total business-type activities | 9,972,296 | 12,606,151 | 1,184,417 | 62,700 | - | 3,880,972 | 3,880,972 |
| Total primary government | \$ 29,245,404 | \$ 15,318,334 | \$ 5,161,466 | \$ 62,700 | (12,583,876) | 3,880,971 | (8,702,904) |
| General revenues: | | | | | | | |
| Property taxes | | | | | 5,339,612 | - | 5,339,612 |
| Sales taxes | | | | | 3,355,678 | - | 3,355,678 |
| Utility taxes | | | | | 3,326,371 | - | 3,326,371 |
| Business taxes | | | | | 304,884 | - | 304,884 |
| Excise taxes | | | | | - | - | - |
| Other taxes | | | | | 915,684 | - | 915,684 |
| Grants and contributions not restricted to specific programs | | | | | - | - | - |
| Unrestricted investment earnings | | | | | 134,782 | 13,056 | 147,838 |
| Loss on sale of capital assets | | | | | - | - | - |
| Transfers | | | | | (220,013) | 209,131 | (10,882) |
| Total general revenues and transfers | | | | | 13,156,998 | 222,187 | 13,379,185 |
| Prior year adjustments | | | | | - | - | - |
| Change in net position | | | | | 573,122 | 4,103,158 | 4,676,281 |
| Prior Period Adjustments | | | | | (331,232) | (100,055) | (431,287) |
| Prior year net position change for this statement | | | | | | (1,194,428) | (1,194,428) |
| Net position - beginning | | | | | 37,562,165 | 52,805,586 | 90,367,751 |
| Net position - ending | | | | | \$ 37,804,055 | \$ 55,614,261 | \$ 93,418,316 |

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

**City of Pullman
Balance Sheet
Governmental Funds
December 31, 2011**

| | General | Streets | Other Governmental Funds | Total Governmental Funds |
|---------------------------------------------------|--------------|--------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,376,248 | \$ 2,894,560 | \$ 2,483,667 | \$ 6,754,475 |
| Cash with fiscal agent | - | - | - | - |
| Investments | - | - | - | - |
| Receivables (net of allowance for uncollectibles) | 313,020 | 96,252 | - | 409,272 |
| Taxes Receivable | 190,829 | - | 35,742 | 226,571 |
| Other Current Receivables | 338,446 | - | 60,864 | 399,310 |
| Due from other funds | 807 | - | - | 807 |
| Due from other governmental units | 241,480 | - | - | 241,480 |
| Inventories | - | - | - | - |
| Prepaid items | 8,141 | - | - | 8,141 |
| Intergovernmental receivable - restricted | - | - | - | - |
| Total assets | 2,468,971 | 2,990,812 | 2,580,273 | 8,040,056 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | 57,382 | 41,561 | 46,765 | 145,708 |
| Other accrued liabilities | - | - | - | - |
| Accrued wages and benefits | 842,210 | 26,457 | 4,729 | 873,396 |
| Taxes Payable | 220,232 | - | - | 220,232 |
| Custodial accounts | 32,427 | - | - | 32,427 |
| Due to other funds | - | - | - | - |
| Customer deposits | 211,857 | - | - | 211,857 |
| Matured bonds payable | - | - | - | - |
| Deferred revenue | 190,829 | - | 35,742 | 226,571 |
| Unearned revenue | 28,569 | - | - | 28,569 |
| Liabilities payable from restricted assets | - | - | - | - |
| Total liabilities | 1,583,505 | 68,018 | 87,236 | 1,738,759 |
| Fund balances: | | | | |
| Nonspendable | 21,816 | - | - | 21,816 |
| Restricted | 79,729 | 1,561,973 | 2,475,315 | 4,117,017 |
| Committed | 310,346 | 1,360,821 | 17,722 | 1,688,889 |
| Assigned | - | - | - | - |
| Unassigned | 473,575 | - | - | 473,575 |
| Total fund balances | 885,466 | 2,922,794 | 2,493,037 | 6,301,300 |
| Total liabilities and fund balances | \$ 2,468,971 | \$ 2,990,812 | \$ 2,580,273 | |

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

29,240,873

Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

5,283,119

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.

(3,021,237)

Net position of governmental activities

\$ 37,804,055

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

City of Pullman
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

| | General | Streets | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------------------------------|--------------------|---------------------|--------------------------------|--------------------------------|
| REVENUES | | | | |
| Taxes: | | | | |
| Property | \$ 4,383,120 | \$ 135,182 | \$ 821,310 | \$ 5,339,612 |
| Sales | 3,355,678 | - | - | 3,355,678 |
| Utility | 2,194,353 | 1,132,018 | - | 3,326,371 |
| Business | - | - | 304,884 | 304,884 |
| Excise | - | - | - | - |
| Other | 915,684 | - | - | 915,684 |
| Licenses and permits | 433,875 | 375 | - | 434,250 |
| Intergovernmental | 1,526,959 | 1,507,575 | 27,328 | 3,061,862 |
| Charges for services | 1,887,157 | 100,000 | 5,333 | 1,992,490 |
| Fines | 92,472 | - | - | 92,472 |
| Investment earnings | 32,806 | 350 | 97,895 | 131,051 |
| Contributions and donations | 36,731 | - | 49,038 | 85,769 |
| Facility rentals | 62,326 | - | - | 62,326 |
| Other miscellaneous revenues | 36,843 | 5,592 | 4,574 | 47,009 |
| Total revenues | <u>14,958,004</u> | <u>2,881,092</u> | <u>1,310,362</u> | <u>19,149,458</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 1,342,598 | - | - | 1,342,598 |
| Public safety | 9,930,818 | - | - | 9,930,818 |
| Highway and streets | 282,266 | 2,101,908 | - | 2,384,174 |
| Transportation | - | - | - | - |
| Economic and physical development | - | - | - | - |
| Culture and recreation | 3,884,100 | - | 918,172 | 4,802,272 |
| Debt service: | | | | |
| Principal | - | - | 250,000 | 250,000 |
| Debt issuance | - | - | - | - |
| Interest | - | - | 76,435 | 76,435 |
| Debt service costs | - | - | 907 | 907 |
| Capital outlay: | | | | |
| Land | - | - | - | - |
| Buildings | - | - | - | - |
| Highway and streets | - | - | - | - |
| Improvements | - | 761,695 | 31,339 | 793,034 |
| Total expenditures | <u>15,439,784</u> | <u>2,863,603</u> | <u>1,276,853</u> | <u>19,580,238</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(481,780)</u> | <u>17,489</u> | <u>33,509</u> | <u>(430,780)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | 128,105 | 128,105 |
| Transfers out | (184,234) | (230,500) | (407) | (415,141) |
| Capital Leases | (61,515) | - | - | (61,515) |
| Prior year adjustments and change in reserves | (331,232) | - | - | (331,232) |
| Total other financing sources and uses | <u>(576,981)</u> | <u>(230,500)</u> | <u>127,698</u> | <u>(679,783)</u> |
| Net change in fund balances | <u>(1,058,762)</u> | <u>(213,011)</u> | <u>161,207</u> | <u>(1,110,563)</u> |
| Fund balances - beginning | 1,944,228 | 3,135,805 | 2,331,830 | 7,411,863 |
| Fund balances - ending | <u>\$ 885,466</u> | <u>\$ 2,922,794</u> | <u>\$ 2,493,037</u> | <u>\$ 6,301,300</u> |

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, 2011

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

| | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Net change in fund balances- total governmental funds | \$ (1,110,563) |
| 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. | \$ 725,566 |
| The net effect of various miscellaneous transactions involving changes in fund balance (i.e. prior year adjustments, changes in reserves) is to decrease net assets | \$ 477,030 |
| The issuance of long term debt provides current financial resources to governmental funds, while the repayment of the principal; of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. | 250,000 |
| 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. | (685,697) |
| 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. | 916,786 |
| Change in net assets of governmental activities | 573,122 |

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

City of Pullman
General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2011

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|-----------------------------------------------|------------------|--------------|----------------|-----------------------------------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes: | | | | |
| Property | \$ 4,394,273 | \$ 4,394,273 | \$ 4,383,120 | \$ (11,153) |
| Sales | 3,179,000 | 3,179,000 | 3,355,678 | 176,678 |
| Utility | 2,293,000 | 2,293,000 | 2,194,353 | (98,647) |
| Other | 1,007,000 | 1,007,000 | 915,684 | (91,316) |
| Licenses and permits | 389,000 | 389,000 | 433,875 | 44,875 |
| Intergovernmental | 1,575,373 | 1,591,540 | 1,526,959 | (64,581) |
| Charges for services | 2,143,628 | 2,143,628 | 1,887,157 | (256,471) |
| Fines | 106,500 | 106,500 | 92,472 | (14,028) |
| Investment earnings | 60,000 | 60,000 | 32,806 | (27,194) |
| Contributions and donations | 65,000 | 45,000 | 36,731 | (8,269) |
| Facility rentals | 63,000 | 63,000 | 62,326 | (674) |
| Other miscellaneous revenues | 30,625 | 30,625 | 36,843 | 6,218 |
| Total revenues | 15,306,399 | 15,302,566 | 14,958,004 | (344,562) |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government: | | | | |
| Council | 149,054 | 155,916 | 144,465 | 11,451 |
| Manager | 177,835 | 178,851 | 175,395 | 3,456 |
| Attorney | 84,230 | 84,230 | 84,170 | 60 |
| Personnel | 98,216 | 98,216 | 96,786 | 1,430 |
| Finance and administration | 727,814 | 727,814 | 667,758 | 60,056 |
| Other - unclassified | 188,866 | 188,866 | 174,024 | 14,842 |
| Total general government | 1,426,015 | 1,433,893 | 1,342,598 | 91,295 |
| Public safety: | | | | |
| Police | 5,322,201 | 5,341,002 | 5,330,493 | 10,509 |
| Fire | 4,384,733 | 4,442,730 | 4,254,891 | 187,839 |
| Inspection | 307,254 | 352,003 | 345,433 | 6,570 |
| Total public safety | 10,014,188 | 10,135,735 | 9,930,818 | 204,917 |
| Highway and streets | 301,559 | 301,559 | 282,266 | 19,293 |
| Culture and recreation | 4,060,137 | 4,077,274 | 3,884,100 | 193,174 |
| Total expenditures | 15,801,899 | 15,948,461 | 15,439,784 | 508,679 |
| Excess of revenues over expenditures | (495,500) | (645,895) | (481,780) | 164,117 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | | | - | - |
| Transfers out | (98,735) | (98,735) | (184,234) | (85,499) |
| Capital leases | (81,459) | (81,459) | (61,515) | 19,944 |
| Prior year adjustments and change in reserves | - | - | (331,232) | (331,232) |
| Sale of capital assets | - | - | - | - |
| Total other financing sources and uses | (180,194) | (180,194) | (576,981) | (396,787) |
| Net change in fund balances | (675,694) | (826,089) | (1,058,762) | (232,670) |
| Fund balances - beginning | 1,944,228 | 1,944,228 | 1,944,228 | - |
| Fund balances - ending | \$ 1,268,534 | \$ 1,118,139 | \$ 885,466 | \$ (232,670) |

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

City of Pullman
Street Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2011

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--------------------------------------------------------------|---------------------|---------------------|---------------------|-----------------------------------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes: | | | | |
| Property | \$ 150,000 | \$ 150,000 | \$ 135,182 | \$ (14,818) |
| Sales | | | - | - |
| Utility | 1,088,000 | 1,088,000 | 1,132,018 | 44,018 |
| Business | | | - | - |
| Excise | | | - | - |
| Other | | | - | - |
| Licenses and permits | 500 | 500 | 375 | (125) |
| Intergovernmental | 1,845,750 | 1,845,750 | 1,507,575 | (338,175) |
| Charges for services | 100,000 | 100,000 | 100,000 | - |
| Fines | | | | - |
| Special assessments | | | - | - |
| Investment earnings | 500 | 500 | 350 | (150) |
| Contributions and donations | | | - | - |
| Facility rentals | | | - | - |
| Other miscellaneous revenues | 5,650 | 5,650 | 5,592 | (58) |
| Total revenues | <u>3,190,400</u> | <u>3,190,400</u> | <u>2,881,092</u> | <u>(309,308)</u> |
| EXPENDITURES | | | | |
| Current: | | | | - |
| General government | | | | - |
| Public safety | | | | - |
| Highway and streets | 2,676,010 | 2,644,010 | 2,101,908 | 542,102 |
| Transportation | | | | - |
| Economic and physical development | | | | - |
| Culture and recreation | | | | - |
| Debt service: | | | | - |
| Principal | | | | - |
| Interest | | | | - |
| Debt service costs | | | | - |
| Capital outlay: | | | | - |
| Highway and streets | | | | - |
| Improvements | 1,015,000 | 1,005,000 | 761,695 | 243,305 |
| Total expenditures | <u>3,691,010</u> | <u>3,649,010</u> | <u>2,863,602</u> | <u>785,407</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(500,610)</u> | <u>(458,610)</u> | <u>17,489</u> | <u>476,099</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | | | | - |
| Transfers out | (188,000) | (230,000) | (230,500) | (500) |
| Prior year adjustments and change in reserves | | | | - |
| Total other financing sources and uses | <u>(188,000)</u> | <u>(230,000)</u> | <u>(230,500)</u> | <u>(500)</u> |
| Net change in fund balances | <u>(688,610)</u> | <u>(688,610)</u> | <u>(213,011)</u> | <u>475,599</u> |
| Fund balances - beginning | 3,135,805 | 3,135,805 | 3,135,805 | - |
| Fund balances - ending | <u>\$ 2,447,195</u> | <u>\$ 2,447,195</u> | <u>\$ 2,922,794</u> | <u>\$ 475,599</u> |

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

**City of Pullman
Statement of Net Assets
Proprietary Funds
December 31, 2011**

Business-type Activities-Enterprise Funds

| | Utility Current Year | Transit Current Year | Totals | Governmental Activities- Internal Service Funds |
|--------------------------------------------------------|---------------------------------|---------------------------------|---------------|--------------------------------------------------------------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 7,267,941 | \$ 784,788 | \$ 8,052,729 | \$ 1,541,377 |
| Cash with fiscal agent | - | - | \$ - | |
| Investments | 515,130 | - | \$ 515,130 | - |
| Interest receivable | 1,113 | - | \$ 1,113 | 599 |
| Accounts receivable | 610,594 | 524 | \$ 611,118 | - |
| Due from other funds | - | - | \$ - | - |
| Other current receivable | 817,986 | 471,027 | \$ 1,289,013 | 238,724 |
| Intergovernmental receivable | - | 23,663 | \$ 23,663 | 2,678 |
| Inventories | 455,114 | - | \$ 455,114 | 196,995 |
| Prepaid Items | 7,169 | 3,243 | \$ 10,412 | 21,443 |
| Total current assets | 9,675,047 | 1,283,244 | 10,958,291 | 2,001,816 |
| Noncurrent assets: | | | | |
| Restricted cash, cash equivalents, and investments: | | | | |
| Customer deposits | 35,045 | - | 35,045 | - |
| Investments | - | - | - | 575,000 |
| Total restricted assets | 35,045 | - | 35,045 | 575,000 |
| Deferred charges | - | - | - | - |
| Capital assets: | | | | |
| Land | 996,638 | - | 996,638 | - |
| Buildings and system | 15,194,902 | 2,019,550 | 17,214,452 | - |
| Improvements other than buildings | 20,446,525 | 98,189 | 20,544,714 | - |
| Machinery and equipment | 20,562,359 | 6,385,343 | 26,947,702 | 5,211,486 |
| Construction in progress | 6,766,994 | 293,112 | 7,060,106 | 1,131,431 |
| Less accumulated depreciation | (19,926,342) | (3,188,504) | (23,114,846) | (3,086,109) |
| Total capital assets (net of accumulated depreciation) | 44,041,076 | 5,607,691 | 49,648,767 | 3,256,808 |
| Total noncurrent assets | 44,076,121 | 5,607,691 | 49,683,812 | 3,831,808 |
| Total assets | 53,751,168 | 6,890,935 | 60,642,103 | 5,833,623 |

**City of Pullman
Statement of Net Assets
Proprietary Funds
December 31, 2011**

Business-type Activities-Enterprise Funds

| | Utility Current Year 401 | Transit Current Year 405 | Totals | Governmental Activities- Internal Service Funds |
|----------------------------------------------------------------------------------------------------------|-----------------------------------------|-----------------------------------------|---------------|--------------------------------------------------------------------|
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | 127,977 | 10,431 | 138,408 | 292,936 |
| Matured long term debt | - | - | - | - |
| Compensated absences | 91,716 | 60,369 | 152,085 | 39,008 |
| Accrued wages and benefits | 163,063 | 165,311 | 328,374 | 81,757 |
| Revenues in advance | 12,670 | - | 12,670 | - |
| Accrued interest payable | 40,152 | - | 40,152 | - |
| Other accrued liabilities | 258,687 | - | 258,687 | - |
| Long term debt - current portion | 750,396 | - | 750,396 | 57,740 |
| Capital leases payable - current | - | - | - | - |
| Total current liabilities | 1,444,661 | 236,110 | 1,680,771 | 471,441 |
| Current liabilities payable from restricted assets: | | | | |
| Customer deposits payable | 35,245 | - | 35,245 | - |
| Revenue bonds payable | - | - | - | - |
| Accrued interest payable | - | - | - | - |
| Total current liabilities payable from restricted assets | 35,245 | - | 35,245 | - |
| Noncurrent liabilities: | | | | |
| Long Term Debt | 2,140,579 | - | 2,140,579 | - |
| Revenue bonds payable (net of unamortized discounts and deferred amount on refunding) | 2,390,000 | - | 2,390,000 | - |
| Capital leases payable | - | - | - | - |
| Due to other governments | - | - | - | 79,063 |
| Total noncurrent liabilities | 4,530,579 | - | 4,530,579 | 79,063 |
| Total liabilities | 6,010,485 | 236,110 | 6,246,595 | 550,504 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 38,760,101 | 5,607,691 | 44,367,792 | 3,120,005 |
| Restricted for debt service | 192,415 | - | 192,415 | - |
| Unrestricted | 8,788,168 | 1,047,134 | 9,835,302 | 2,163,115 |
| Total net assets | \$ 47,740,684 | \$ 6,654,825 | \$ 54,395,509 | \$ 5,283,119 |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. | | | 1,218,753 | |
| Net assets of business-type activities | | | \$ 55,614,262 | |

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

City of Pullman
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2011

| | <u>Business-type Activities-Enterprise Funds</u> | | | Governmental Activities- Internal Service Funds |
|-------------------------------------------------------------------------------------------------------------|--------------------------------------------------|---------------------------------|---------------------|--------------------------------------------------------------------|
| | Utility Current Year | Transit Current Year | Totals | |
| Operating revenues: | | | | |
| Charges for sales and services | | | | |
| Water and Sewer sales | \$ 7,588,886 | \$ - | \$ 7,588,886 | \$ - |
| Sewer charges pledged as security for revenue bonds | - | - | - | - |
| Tap fees - unpledged | 141,842 | - | 141,842 | - |
| Transit sales | - | 1,698,117 | 1,698,117 | - |
| Other services | 1,030,408 | - | 1,030,408 | 3,287,462 |
| Total operating revenues | <u>8,761,136</u> | <u>1,698,117</u> | <u>10,459,253</u> | <u>3,287,462</u> |
| Operating expenses: | | | | |
| Costs of sales and services | 6,036,870 | 2,978,126 | 9,014,996 | 2,798,386 |
| Administration | - | 280,284 | 280,284 | 368,479 |
| Depreciation | 1,420,615 | 357,330 | 1,777,945 | 360,448 |
| Total operating expenses | <u>7,457,485</u> | <u>3,615,740</u> | <u>11,073,225</u> | <u>3,527,313</u> |
| Operating income | <u>1,303,651</u> | <u>(1,917,624)</u> | <u>(613,973)</u> | <u>(239,851)</u> |
| Nonoperating revenues (expenses): | | | | |
| Intergovernmental | 290,007 | 2,071,113 | 2,361,120 | 705,143 |
| Investment earnings | 13,056 | - | 13,056 | 3,731 |
| Interest expense | (117,824) | - | (117,824) | (5,543) |
| Gain (Loss) on sale of fixed assets | - | - | - | 1,205 |
| Other nonoperating revenues (expenses) | 937,192 | 33,003 | 970,195 | 82,021 |
| Total nonoperating revenue (expenses) | <u>1,122,432</u> | <u>2,104,116</u> | <u>3,226,547</u> | <u>786,557</u> |
| Income before contributions and transfers | 2,426,083 | 186,492 | 2,612,574 | 546,706 |
| Capital contributions | 62,700 | - | 62,700 | - |
| Prior year adjustments | (100,055) | - | (100,055) | - |
| Transfers in | 209,131 | - | 209,131 | 67,023 |
| Transfers out | - | - | - | - |
| Change in net assets | <u>2,597,859</u> | <u>186,492</u> | <u>2,784,350</u> | <u>613,729</u> |
| Total net assets - beginning | 45,142,824 | 6,468,333 | | 4,669,390 |
| Total net assets - ending | <u>\$ 47,740,683</u> | <u>\$ 6,654,825</u> | | <u>\$ 5,283,119</u> |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. | | | 1,218,753 | |
| Change in net assets of business-type activities | | | <u>\$ 4,003,103</u> | |

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

City of Pullman
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

| | <u>Business-type Activities-Enterprise Funds</u> | | | Governmental Activities- Internal Service Funds |
|-------------------------------------------------------------------------|--------------------------------------------------|---------------------------------|---------------------|--------------------------------------------------------------------|
| | <u>Utility Current Year</u> | <u>Transit Current Year</u> | <u>Totals</u> | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers and users | \$ 13,660,483 | \$ 1,846,607 | \$ 15,507,090 | |
| Receipts from interfund services provided | - | - | - | 3,659,894 |
| Payments to suppliers and interfund services | (9,128,210) | (1,303,257) | (10,431,467) | (2,829,269) |
| Payments to employees | (1,945,899) | (1,987,179) | (3,933,078) | (788,363) |
| Net cash provided by operating activities | <u>2,586,374</u> | <u>(1,443,829)</u> | <u>1,142,545</u> | <u>42,261</u> |
| CASH FLOWS FROM OPERATING FINANCING ACTIVITIES | | | | |
| Transfers to other funds | - | - | - | 67,023 |
| Transfers from other funds | 209,131 | - | 209,131 | |
| Financing available for operating purposes | - | - | - | - |
| Taxes available for operating purposes | - | 1,145,885 | 1,145,885 | - |
| Proceeds from nonoperating | 1,289,899 | 958,231 | 2,248,130 | 787,164 |
| Net cash provided (used) by noncapital and related financing activities | <u>1,499,030</u> | <u>2,104,116</u> | <u>3,603,146</u> | <u>854,187</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Proceeds from capital debt | 191,350 | - | 191,350 | - |
| Capital contributions | (62,700) | - | (62,700) | - |
| Purchases of capital assets | - | - | - | - |
| Acquisition and construction of capital assets | (1,951,367) | (284,204) | (2,235,571) | (1,173,139) |
| Principal paid on capital debt | (686,746) | - | (686,746) | (55,834) |
| Interest paid on capital debt | (115,964) | - | (115,964) | (5,543) |
| Proceeds from sales of capital assets | - | - | - | 3,607 |
| Net cash provided (used) by capital and related financing activities | <u>(2,625,426)</u> | <u>(284,204)</u> | <u>(2,909,631)</u> | <u>(1,230,909)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from sales and maturities of investments | 500,000 | - | 500,000 | - |
| Purchases of investments | (515,130) | - | (515,130) | 575,000 |
| Premiums and Discounts | - | - | - | - |
| Interest and dividends received | 13,056 | - | 13,056 | 3,731 |
| Net cash provided (used) by investing activities | <u>(2,074)</u> | <u>-</u> | <u>(2,074)</u> | <u>3,731</u> |
| Net increase in cash and cash equivalents | <u>1,457,904</u> | <u>376,083</u> | <u>1,833,384</u> | <u>(330,729)</u> |
| Cash and cash equivalents, January 1 | <u>5,845,081</u> | <u>408,705</u> | <u>6,253,786</u> | <u>1,872,106</u> |
| Cash and cash equivalents, December 31 | <u>\$ 7,302,986</u> | <u>\$ 784,788</u> | <u>\$ 8,087,170</u> | <u>\$ 1,541,377</u> |

City of Pullman
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

**Reconciliation of operating income to
net cash provided (used) by operating
activities:**

| | | | | |
|------------------------------------------------------------------------------------------------------|---------------------|-----------------------|---------------------|------------------|
| Operating income | \$ 1,303,651 | \$ (1,917,624) | \$ (613,973) | \$ (239,851) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | |
| Depreciation expense | 1,420,615 | 357,330 | 1,777,945 | 360,448 |
| Prior period adjustments | - | - | - | - |
| (Increase) decrease in accounts receivable | (57,585) | (215) | (57,800) | - |
| (Increase) decrease in current receivable | (466,550) | (46,398) | (512,948) | (208,217) |
| (Increase) decrease in intergovernmental receivable | 75,823 | 153,044 | 228,867 | 18,746 |
| (Increase) decrease in interest receivable | (92) | - | (92) | 69 |
| (Increase) decrease in inventories | 15,981 | - | 15,981 | (40,641) |
| (Increase) decrease in prepaid items | (824) | (714) | (1,538) | (3,867) |
| Increase (decrease) in customer deposits | (4,890) | - | (4,890) | - |
| Increase (decrease) in accounts payable | (27,775) | 3,769 | (24,006) | 154,359 |
| Increase (decrease) in interest payable | (2,086) | - | (2,086) | - |
| Increase (decrease) in customer deposits`p | 4,390 | - | 4,390 | - |
| Increase (decrease) in long term obligations | 63,750 | - | 63,750 | 1,906 |
| Increase (decrease) in other accred liabilitie | 258,082 | - | 258,082 | (6,952) |
| Increase (decrease) in advance revenues | 2,310 | - | 2,310 | - |
| Increase (decrease) in compensated absences payable | (4,579) | 1,708 | (2,871) | 1,209 |
| Increase (decrease) in intergovernmental payables | - | - | - | - |
| Increase (decrease) in accrued wages and benefits | 6,154 | 5,270 | 11,424 | 5,052 |
| Total adjustments | <u>1,282,723</u> | <u>473,795</u> | <u>1,756,519</u> | <u>282,112</u> |
| Net cash provided by operating activities | <u>\$ 2,586,374</u> | <u>\$ (1,443,829)</u> | <u>\$ 1,142,545</u> | <u>\$ 42,261</u> |

NON-CASH ACTIVITIES:

Assets contributed from developers and customer \$ 62,700

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

**City of Pullman
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2011**

| | Lawson Investment Trust Fund | Airport Agency Fund |
|----------------------------------------------------------|---------------------------------------------|------------------------------------|
| ASSETS | | |
| Cash | \$ 7,702 | \$98,005 |
| Receivables | | \$242,779 |
| Interest receivable | 19,240 | |
| Investments, at fair value: | | |
| U.S. Government securities | 3,083,288 | |
| Total investments | 3,083,288 | |
| Total assets | 3,110,230 | \$340,784 |
| LIABILITIES | | |
| Accounts payable | | |
| Custodial Accounts | | \$340,784 |
| Total liabilities | - | \$340,784 |
| NET ASSETS | | |
| Held in trust for pension benefits and other purposes | \$ 3,110,230 | |

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

City of Pullman
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2011

| | Lawson Gardens Investment Trust Fund |
|--------------------------------------------------------------|-----------------------------------------------------|
| ADDITIONS | |
| Contributions: | |
| Employer | \$ - |
| Plan members | - |
| Private donations | 1,000 |
| Other Sources | |
| Total Contributions | 1,000 |
| Investment earnings: | |
| Interest | 95,788 |
| Net increase (decrease) in the fair value of investments | 119,618 |
| Total investment earnings | 215,406 |
| Less investment expense | |
| Net investment earnings | 215,406 |
| Total additions | 216,406 |
| DEDUCTIONS | |
| Distribution of earnings | (95,877) |
| Prior Year refunds of contributions | - |
| Total deductions | (95,877) |
| Change in net assets | 120,529 |
| Net assets - beginning | 2,989,701 |
| Net assets - ending | \$ 3,110,230 |

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 "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments" (Statement #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.

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. 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. 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of 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 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, 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.

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 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 2011 Water/Sewer Fund had \$1,091,327 worth of expenditures in excess of appropriations. The expenditures were funded by the 2011 Water/Sewer Fund revenues which exceeded budget by \$1,048,308 and cash reserves. Transit had \$128,021 worth of expenditures in excess of appropriations. The expenditures were funded with revenues that exceeded budget by \$35,786 and cash reserves. The Water/Sewer Bond Fund exceeded its appropriations by \$11,582 which was 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, 2011, the finance director was holding \$5,444,164 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 | \$ 658,656 |
| Cash and Investments - for Construction | \$ 575,000 |
| Cash and Investments - Permanent Restriction for Pension obligations(Fund 615) | \$ 0 |
| Total Restricted Assets | \$1,228,149 |

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

| | |
|----------------------------------------|-----------|
| Cash and Investments-Customer Deposits | \$ 35,045 |
| Total Restricted Assets | \$ 35.045 |

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 #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 assets.

15. Deferred 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 Assets

The governmental funds' balance sheet includes a reconciliation between fund balance - total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. 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 \$29,240,873.
2. Internal service funds are included in governmental activities in the statement of net position - net effect \$5,283,319.
3. Long term liabilities are not reported in the funds-net effect \$(3,021,237).

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

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

1. Net change in fund balances - total governmental funds - net effect \$ (1,110,563).
2. Governmental funds report capital outlays as expenditures (depreciation in current period) - net effect \$725,566.
3. The net effect of various miscellaneous transactions involving changes in fund balance - net effect \$ 477,030.
4. The issuance of long term debt - net effect \$250,000.
5. Some expenses reported in the statement of activities do not require the use of current financial resources - net effect \$(685,697).

6. The net revenue of certain activities of internal service funds is reported with governmental activities - net effect \$916,786.

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 | 1,090,130 | - | 1,090,130 |
| Bankers' Acceptances | - | - | - |
| WA Municipal Obligations | - | - | - |
| TOTAL | \$ 1,090,130 | - | \$ 1,090,130 |

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 \$1,090,130 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 deferred 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 2011 the City levied the following property taxes on an assessed value of \$1,325,528,045 (The special levies identified in the table were approved by the voters and are not subject to the limitations listed above.)

| <u>Purpose of Levy</u> | <u>Levy Rate</u> <u>per \$1,000</u> | <u>Total</u> <u>Levy Amount</u> |
|------------------------|----------------------------------------|------------------------------------|
| General Government | \$ 2.9106 | \$3,857,781 |
| EMS Levy | 0.4044 | 536,041 |
| Special G.O. Bond Levy | <u>0.2164</u> | <u>285,474</u> |
| TOTALS | \$ 3.5315 | \$4,679,296 |

NOTE 6 - CAPITAL ASSETS

A summary of changes in capital assets as of December 31, 2011 follows:

| | <u>Balance</u> <u>1/1/2011</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>12/31/2011</u> |
|-----------------------------------------------|-----------------------------------|----------------------------|--------------------------|-------------------------------------|
| Governmental Activities: | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$1,234,830 | \$ - | \$ - | \$ 1,234,830 |
| Construction In Progress | <u>621,469</u> | <u>2,011,281</u> | <u>162,403</u> | <u>2,240,347</u> |
| Total Capital Assets, Not Being Depreciated: | 1,856,299 | 2,011,281 | 162,403 | 3,705,177 |
| Capital Assets, Being Depreciated: | | | | |
| Buildings | 5,163,304 | - | - | 5,163,304 |
| Other Improvements | 5,792,383 | 54,835 | - | 5,847,218 |
| Machinery and Equipment | 7,360,248 | 473,379 | 327,062 | 7,506,565 |
| Infrastructure | <u>26,104,512</u> | <u>837,068</u> | <u>-</u> | <u>26,941,580</u> |
| Total Capital Assets, Being Depreciated: | 44,420,447 | 1,365,282 | 327,062 | 45,458,667 |
| Less Accumulated Depreciation For: | | | | |
| Buildings | (2,487,700) | (115,572) | - | (2,903,272) |
| Other Improvements | (1,524,560) | (169,425) | - | (1,693,985) |
| Machinery and Equipment | (4,620,633) | (592,612) | (313,169) | (4,900,076) |
| Infrastructure | <u>(6,481,278)</u> | <u>(687,552)</u> | <u>-</u> | <u>(7,168,830)</u> |
| Total Accumulated Depreciation | <u>(15,414,171)</u> | <u>(1,565,161)</u> | <u>(313,169)</u> | <u>(16,666,163)</u> |
| Total Capital Assets, Being Depreciated, Net: | <u>29,006,276</u> | <u>(199,879)</u> | <u>13,893</u> | <u>28,729,504</u> |
| Governmental Activities Capital Assets, Net: | | | | |
| | <u><u>\$30,862,575</u></u> | <u><u>\$ 1,811,402</u></u> | <u><u>\$ 176,296</u></u> | <u><u>\$32,497,681</u></u> |

| | <u>Balance</u> <u>1/1/2011</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>12/31/2011</u> |
|-----------------------------------------------|-----------------------------------|-------------------------|-------------------------|-------------------------------------|
| Business-Type Activities: | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$ 996,638 | \$ - | \$ - | \$ 996,638 |
| Construction In Progress | <u>5,874,751</u> | <u>1,730,163</u> | <u>544,808</u> | <u>7,060,106</u> |
| Total Capital Assets, Not Being Depreciated: | 6,871,389 | 1,730,163 | 544,808 | 8,056,744 |
| Capital Assets, Being Depreciated: | | | | |
| Plant in Service ** | <u>63,781,888</u> | <u>1,025,198</u> | <u>93,082</u> | <u>64,714,004</u> |
| Total Capital Assets, Being Depreciated: | 63,781,888 | 1,025,198 | 93,082 | 64,714,004 |
| Less Accumulated Depreciation For: | | | | |
| Plant in Service ** | <u>(21,427,808)</u> | <u>(1,777,944)</u> | <u>(83,774)</u> | <u>(23,121,978)</u> |
| Total Accumulated Depreciation | <u>(21,427,808)</u> | <u>(1,777,944)</u> | <u>83,774)</u> | <u>(23,121,98)</u> |
| Total Capital Assets, Being Depreciated, Net: | <u>42,354,080</u> | <u>(752,746)</u> | <u>9,308</u> | <u>41,592,026</u> |
| Business-Type Activities Capital Assets, Net: | <u><u>\$49,225,469</u></u> | <u><u>\$977,417</u></u> | <u><u>\$554,116</u></u> | <u><u>\$49,648,770</u></u> |
| Governmental Activities: | | | | |
| General Government | | \$518,499 | | |
| Safety | | \$164,909 | | |
| Transportation | | \$690,031 | | |
| Culture and Recreation | | <u>\$191,722</u> | | |
| Total Depreciation - Governmental Activities | | \$1,565,161 | | |
| Business-Type Activities: | | | | |
| Water and Sewer | | \$1,418,839 | | |
| Stormwater | | \$5,775 | | |
| Transit | | <u>\$357,330</u> | | |
| Total Depreciation - Business-Type Activities | | \$1,777,944 | | |

** 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 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.

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

There are 2,326 participating employers in PERS. Membership in PERS consisted of the following at June 30, 2011:

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

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, 2011, were:

| | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|----------|--------------------|--------------------|--------------------|
| Employer | 7.25%* | 7.25%* | 7.25%* |
| Employee | 6.00% | 4.64% | 5% to 15% |

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

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 |
|------|--------------------|--------------------|--------------------|
| 2011 | \$27,956 | \$321,304 | \$53,470 |
| 2010 | \$24,293 | \$278,580 | \$55,828 |
| 2009 | \$32,694 | \$329,897 | \$72,840 |
| 2008 | \$33,593 | \$349,210 | \$75,671 |

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 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.

There are 436 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

| | |
|--------------------------------------------------------------------|---------------|
| Retirees and Beneficiaries Receiving Benefits | 9,647 |
| Terminated Plan Members Entitled To But Not Yet Receiving Benefits | 782 |
| Active Plan Members Vested | 13,420 |
| Active Plan Members Non-vested | 3,646 |
| Total | 27,505 |

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, 2011, were as follows:

| | LEOFF Plan 1 | LEOFF Plan 2 |
|----------|---------------------|---------------------|
| Employer | 0.16%* | 5.24%* |
| Employee | 0.00% | 8.46% |
| State | N/A | 3.53% |

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

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 |
|------|---------------------|---------------------|
| 2011 | \$259 | \$233,596 |
| 2010 | \$354 | \$225,693 |
| 2009 | \$342 | \$215,512 |
| 2008 | \$308 | \$210,816 |

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, 2011, 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

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 145 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.

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.

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.

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.

General Obligation Bonds and Notes:

DEBT
OUTSTANDING
12/31/11

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 Wawawai Pedestrian Path and road improvement on Terre View Dr. 140,000

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. 1,470,000

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 per cent; proceeds for construction of Airport Water Line/Well. Repayments from water/sewer revenues. 2,490,000

2005: \$697,543 State of Washington Public Works Trust Fund Loan; annual installments until 2015 at 0.5 percent; proceeds for design of wastewater treatment plant digester. Repayment from water/sewer revenues. 310,019

2005: \$1,816,400 State of Washington Public Works Trust Fund Loan; annual installments until 2015 at 0.5 percent; proceeds for construction of wastewater treatment plant digester. Repayment from water/sewer revenues. 886,956

2005: \$595,000 State of Washington Public Works Trust Fund Loan; annual installments until 2015 at 0.5 percent; proceeds for construction of Water Well #8. Repayment from water/sewer revenues. 543,056

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. 136,804

2006: \$1,776,500 State of Washington Public Works Trust Fund Loan; annual installments until 2016 at 0.5 percent; proceeds for construction of wastewater treatment plant digester. Repayment from water/sewer revenues. 986,944

2006: \$90,000 State of Washington Public Works Trust Fund Loan; annual installments until 2014 at 0.0 percent; proceeds for the general sewer plan update. Repayment from water/sewer revenues. 64,000

At December 31, 2011, 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 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 | |
|---------------|-------------------------|-------------------|--------------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| December 31 | | | | |
| 2012 | 365,919 | 79,204 | 750,396 | 113,940 |
| 2013 | 380,092 | 64,866 | 750,396 | 108,380 |
| 2014 | 325,583 | 49,247 | 760,396 | 102,218 |
| 2015 | 317,456 | 36,642 | 752,397 | 95,756 |
| 2016 | 260,000 | 23,900 | 307,389 | 89,294 |
| 2017-2021 | 270,000 | 13,500 | 635,000 | 375,663 |
| 2022-2026 | - | - | 770,000 | 235,258 |
| 2027-2029 | - | - | 555,000 | 53,675 |
| TOTALS | \$1,919,050 | \$ 267,359 | \$ 5,280,974 | \$ 1,174,185 |

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 three capital leases. Replacement Defibrillators for the Fire Department were leased, matures 2013. Narrow Band radios were leased for Fire and Police, Matures 2015.

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

| Year Ending December 31 | Payment | Principal | Interest | Balance |
|----------------------------|-------------------|-------------------|------------------|------------|
| 2011 | | | | \$ 172,248 |
| 2012 | \$ 61,030 | \$ 53,179 | \$ 7,851 | \$ 119,069 |
| 2013 | \$ 61,030 | \$ 55,380 | \$ 5,650 | \$ 63,689 |
| 2014 | \$ 33,729 | \$ 31,232 | \$ 2,497 | \$ 32,456 |
| 2015 | \$ 33,729 | \$ 32,456 | \$ 1,272 | \$ (0) |
| TOTALS | \$ <u>189,518</u> | \$ <u>172,248</u> | \$ <u>17,271</u> | |

The assets had a cost net of depreciation of \$ 190,652 at December 31, 2011 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, 2011, the following changes occurred in long-term liabilities:

| | Balance 1/1/2011 | Additions | Reductions | Balance 12/31/2011 | Due With- in One Year |
|---------------------------------------------------|---------------------|-------------------|-------------------|-----------------------|-----------------------------|
| Governmental Activities: | | | | | |
| General Obligation Bonds | \$1,860,000 | \$ - | \$ 250,000 | \$1,610,000 | \$255,000 |
| Special Assessment Debt | - | - | - | - | - |
| Government, Bank, and Other Loans | 192,637 | - | 55,833 | 136,804 | 57,740 |
| Capital Leases | 70,613 | 156,401 | 54,766 | 172,248 | 53,179 |
| Claims and Judgments | - | - | - | - | - |
| Compensated Absences | 523,975 | 2,668 | 642 | 526,001 | - |
| Governmental Activities Long-Term Liabilities | <u>\$2,647,225</u> | <u>\$ 159,069</u> | <u>\$ 361,241</u> | <u>\$2,445,053</u> | <u>\$365,919</u> |
| Business-Type Activities: | | | | | |
| Bonds: | | | | | |
| General Obligation Bonds | \$ - | \$ - | \$ - | \$ - | \$ - |
| Revenue Bonds | 2,590,000 | - | 100,000 | 2,490,000 | 100,000 |
| Less Deferred amounts: | | | | | |
| For Issuance Premiums (Discounts) | - | - | - | - | - |
| Special Assessment Debt | - | - | - | - | - |
| Government, Bank, and Other Loans | 3,122,621 | 255,000 | 586,646 | 2,790,975 | 650,396 |
| Capital Leases | - | - | - | - | - |
| Claims and Judgments | - | - | - | - | - |
| Compensated Absences | 154,956 | 1,708 | 4,579 | 152,085 | - |
| Business-Type Activities Long-Term Liabilities | <u>\$5,867,577</u> | <u>\$ 256,708</u> | <u>\$ 691,225</u> | <u>\$5,433,060</u> | <u>\$750,396</u> |

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 \$37,800 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. 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.

On November 22, 2010 individual claims totaling \$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. 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.

NOTE 14 - Governmental Fund Balances

The following table displays Governmental Fund classification at December 31, 2011:

**City of Pullman
Governmental Fund Balances
December 31, 2011**

| Fund Balances | General Fund | Streets | Special Revenue | | Capital Construction | | | | Expendable Trust | | Permanent Fund | Non-major | | | |
|-------------------------|----------------|------------------|----------------------------|-------------------|----------------------|---------------|-----------|--------------------|------------------|-------------------|-----------------------|--------------------|---|---------|------------------|
| | | | Metropolitan Park District | Civic Improvement | Cemetery Expansion | 2005 TGO Bond | 2007 Bond | Downtown Riverwalk | Lawson Trust | Fireman's Pension | Cemetery Perpetual Ca | Governmental Funds | | | |
| Nonspendable: | | | | | | | | | | | | | | | |
| Petty Cash | 13,675 | | | | | | | | | | | | | | |
| Prepays | 8,141 | | | | | | | | | | | | | | |
| Restricted for: | | | | | | | | | | | | | | | |
| Parks and recreation | 7,379 | | | | | | | | | | | | | | |
| Law Enforcement | 1,000 | | | | | | | | | | | | | | |
| Bonding | 70,000 | | 94,550 | | | | | | | | | 94,550 | | | |
| Lawson Gardens Flowers | 1,350 | | | | | | | | | | | | | | |
| Lawson Gardens | | | | | | | | | 164,199 | | | 164,199 | | | |
| Streets | | 2,922,794 | | | | 585 | | | | | | 585 | | | |
| Tourism | | | | 967,200 | | | | | | | | 967,200 | | | |
| Parks and Paths | | | | | | | 703,245 | 7,818 | | | | 711,063 | | | |
| Fireman's Pensions | | | | | | | | | | 287,421 | | 287,421 | | | |
| Cemetery Perpetual Care | | | | | | | | | | | 250,297 | 250,297 | | | |
| Committed for: | | | | | | | | | | | | | | | |
| CIP | 310,346 | | | | | | | | | | | | | | |
| Cemetery Improvements | | | | | | 17,722 | | | | | | 17,722 | | | |
| Unassigned | 473,575 | | | | | | | | | | | | | | |
| Total Fund Balances | 885,466 | 2,922,794 | 94,550 | 967,200 | - | 17,722 | 585 | 703,245 | 7,818 | - | 164,199 | 287,421 | - | 250,297 | 2,493,037 |

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, 2011:

| <u>Fund Type</u> | <u>Due From Other Funds</u> | <u>Due To Other Funds</u> | <u>Interfund Loans Receivable</u> | <u>Interfund Loans Payable</u> |
|-------------------|-------------------------------------|-----------------------------------|-------------------------------------------|----------------------------------------|
| General Fund | \$ - | \$ - | \$ - | \$ - |
| Street | - | - | - | - |
| Other Gov't Funds | - | - | - | - |
| Internal Service | - | - | - | - |
| Agency | - | - | - | - |
| Fiduciary | - | - | - | - |
| Proprietary | - | - | - | - |
| Totals | \$ - | \$ - | \$ - | \$ - |

The following table displays interfund activity during 2011:

| <u>Fund Type</u> | <u>Operating Transfers</u> | | <u>Residual Equity Transfers</u> | |
|-------------------|----------------------------|------------------|----------------------------------|-------------------|
| | <u>In</u> | <u>Out</u> | <u>In</u> | <u>Out</u> |
| General Fund | | \$(99,036) | \$ - | \$(85,198) |
| Street | | (230,500) | - | - |
| Other Gov't Funds | 109,523 | | 85,198 | - |
| Internal Service | | - | - | - |
| Agency | | - | - | - |
| Fiduciary | - | - | - | - |
| Proprietary | 209,123 | | - | - |
| Totals | \$318,654 | (329,536) | \$ 85,198 | \$(85,198) |

NOTE 16 - RECEIVABLE AND PAYABLE BALANCES

A. Receivables

Receivables at December 31, 2011 were as follows:

| | Accounts | Taxes | Due from Other Government | Other | Total |
|--------------------------------------------------------------------------------------------------|-------------------|-------------------|------------------------------------------|--------------------|--------------------|
| Governmental Activities: | | | | | |
| General Fund | \$ 313,020 | \$ 190,826 | \$ 242,287 | \$ 338,446 | \$1,084,579 |
| Street Fund | 96,252 | - | - | - | \$ 96,252 |
| Other Governmental Funds | - | 35,742 | 299,588 | 299,034 | \$ 338,008 |
| Doubtful Accounts | (66,845) | | | | (66,845) |
| Total | <u>\$ 342,427</u> | <u>\$ 226,568</u> | <u>\$ 244,965</u> | <u>\$ 638,034</u> | <u>\$1,452,593</u> |
| Governmental Activities Amounts not scheduled for collection during the subsequent year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Business-Type Activities: | | | | | |
| Utility Fund | \$ 610,594 | \$ - | \$ - | \$ 819,099 | \$1,429,693 |
| Transit Fund | 524 | - | 23,633 | 471,027 | 495,214 |
| Total | <u>\$ 611,118</u> | <u>\$ -</u> | <u>\$ 23,663</u> | <u>\$1,290,126</u> | <u>\$1,924,907</u> |

B. Payables

Payables at December 31, 2011 were as follows:

| | Vendors | Salaries and Benefits | Other | Total |
|--------------------------------------------------------------------------------------------------------|-------------------|--------------------------------------|-------------------|---------------------|
| Governmental Activities: | | | | |
| General Fund | \$ 57,382 | \$ 842,210 | \$ 252,659 | \$ 1,152,251 |
| Street Fund | 41,561 | 26,457 | - | 68,018 |
| Other Governmental Funds | 339,701 | 125,494 | - | 465,195 |
| Reconciliation of balances in fund financial statements to government- wide financial statements | - | - | - | - |
| Total Governmental Activities | <u>\$ 438,644</u> | <u>\$ 994,161</u> | <u>\$ 252,659</u> | <u>\$ 1,685,464</u> |
| Business-Type Activities: | | | | |
| Utility Fund | \$ 127,977 | \$ 254,779 | \$ 298,839 | \$ 681,595 |
| Transit Fund | 10,431 | 225,680 | - | 236,111 |
| Total Business-Type Activities | <u>\$ 138,408</u> | <u>\$ 480,459</u> | <u>\$ 298,839</u> | <u>\$ 917,706</u> |

NOTE 17 - OTHER POSTEMPLOYMENT BENEFIT (OPEB)

The City adopted the requirements of GASB Statement No. 45 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, 2011. There are 16 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 ("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 \$1,417.10 per month for non-Medicare enrolled retiree-only coverage and \$903.45 for Medicare enrolled retiree.

C. OPEB Cost and Obligation

The City reimbursed a fixed amount of \$96.40 per month in 2011 for a Medicare supplement for 11 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 2011, expenditures of \$233,802 were recognized for postretirement health care.

D. Funded Status

| <u>Funded Status</u> | <u>OPEB Plan</u> |
|----------------------------------------------|-------------------|
| Validation Date | December 31, 2011 |
| Actuarial Value of Assets | \$ - |
| Actuarial Accrued Liability (AAL) | \$ 5,009,851 |
| Unfunded Actuarial Unfunded Actuarial (UAAL) | \$ 5,009,851 |
| Funded Ratio | 0.00% |
| Covered Payroll | N/A |
| UAAL - Percentage of Covered Payroll | N/A |

| <u>Actuarial Methods and Assumptions</u> | <u>OPEB Plan</u> |
|------------------------------------------|-----------------------|
| Validation Date | December 31, 2011 |
| 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

Governmental Activities: In October, the Department of Revenue informed the City that due to retroactive legislation regarding The M&E tax exemption, the City owed \$331,232 for sales taxes received dating back to 2004. At December 31, 2011 \$220,232 was unpaid of that assessment.

Business Type Activities: On April 21, 2010, the City received notice of Violation and Intent To file Suit Under the Federal Water Pollution Control Act from the Lands Council for violations dating back to 2005. On January 10, 2012 the Council passed Resolution R-5-12 to execute a Consent Decree with the Lands Council. In lieu of paying fines for permit violations, the City agreed to pay \$108,687 to the Lands Council for its costs, and \$150,000 to the Palouse-Clearwater Environmental Institute to construct riparian preservation projects as well as implementation of a Stormwater Program Enhancement Plan. Also a review of services to a vendor found that they had not been billed since 2008. They were billed for three years, and the amount of the adjustment for 2009 and 2010 was \$158,632. The net adjustment to Net Assets was \$100,055.

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

Due to a depleting cash balance, the Council passed, at the April 10, 2012 Council meeting, Resolution R-23-12 to authorize the borrowing of up to \$800,000 from the Utility Fund for short term borrowing between receipts of property taxes. On April 23, 2012 staff was asked to come up with expenditure reductions in the current year budget. These were presented to Council at the May 8, 2012 Council meeting. Reductions totaled \$414,928 and together with cost savings in insurance and pension brought the total up to \$555,728. A special City Council meeting was called for May, 22, 2012 to consider these as well as other reductions to bring up the cash balance. The Council approved these reductions and set June 5, 2012 to start the levels of services and priorities process to reduce further our expenditures for this year and beyond,

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, 2011**

| Grantor/ Pass-Through Grantor Program Title | Federal CFDA Number | Other Identification Number | From Indirect Fed Awards | From Direct Awards | Total |
|-----------------------------------------------------------------|---------------------------|-----------------------------------|--------------------------------|--------------------------|--------------------|
| US Department of Energy | 81.128 | F10-52110-045 | 117,553 | | 117,553 |
| ARRA -Washington State Department of Commerce | | Indirect | | | - |
| EECBG Small Cities & Counties | | | | | - |
| Total US Department of Energy | | | | | 117,553 |
| US Department of Transportation | 20.500 | FTA-G16/WA-04-0033-00 | | 693,815.00 | 693,815 |
| Federal Transit Administration/Fed Transit Capital Inv Grants | | | | | - |
| Pullman Transit Maintenance Facility Expansion | | | | | - |
| WSDOT/ ARRA Federal Capital Grant | 20.509 | GCA6340 | 194,382.00 | | 194,382 |
| Phase One of Communications Equipment (partially expended 2009) | | | | | - |
| WSDOT/ Federal FTA Operating Grant | 20.509 | GCA6809 | 412,500.00 | | 412,500 |
| National Highway Traffic Safety Administration | 20.600 | PT11-02 | 2000 | | 2,000 |
| WASPC Traffic Safety Equipment Grant - Radars (2) | | | | | - |
| National Highway Traffic Safety Administration | 20.600 | Target Zero - Impaired | 637.85 | | 638 |
| WA Traffic Safety Commission - Target Zero - Impaired Driving | | | | | - |
| Total US Department of Transportation | | | | | 1,303,335 |
| Federal Aviation Administration | 20.106 | 3-53-0051-29 | | 414,995 | 414,995 |
| Federal Aviation | 20.106 | 3-53-0051-32 | | 2,328 | 2,328 |
| Federal Aviation | 20.106 | 3-53-0051-33 | | 1,556 | 1,556 |
| Federal Aviation | 20.106 | 3-53-0051-34 | | 2,042 | 2,042 |
| Federal Aviation | 20.106 | 3-53-0051-35 | | 777,444 | 777,444 |
| Federal Aviation | 20.106 | 3-53-0051-36 | | 3,325 | 3,325 |
| Federal Aviation | 20.106 | 3-53-051-37 | | 662,316 | 662,316 |
| Federal Aviation | 20.106 | 3-53-0051-38 | | 214 | 214 |
| Total Federal Aviation Administration | | | | | 1,864,220 |
| DHS/Federal Emergency Management Agency | 97.044 | B Project: EMW-2010-FO-09759 | | 11,466.59 | 11,467 |
| Assistance to Fire Fighters Grants Program - Compressor | | | | | - |
| US Department of Justice | 16.738 | M10-34021-018 | 9,994.98 | | 9,995 |
| Washington State Department of Commerce | | | | | - |
| Edward Byrne Memorial Justice Assistance Grant | | | | | - |
| Multi-Jurisdictional Narcotics Task Force Program | | | | | - |
| Washington State Department of Commerce | 16.588 | 2010-WF-AX-0021 | 2,966.10 | | 2,966 |
| STOP Violence Against Women Formula Grant | | | | | - |
| Office of Justice Programs/Bureau of Justice Affairs | 16.9607 | Bullet Proof Vest Program | | 1,850.12 | 1,850 |
| Bullet Proof Vest Program | | | | | - |
| Total US Department of Justice | | | | | \$14,811 |
| Total Federal Awards | | | | | \$3,311,386 |

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, 2011

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.

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

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

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

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

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

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Deputy Chief of Staff
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